PRICE CONTROL
AND
RATIONING IN INDIA

By

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To

The sweet memory

of

My Youngest Brother

Sj. Barindra Nath Chatterji

This Thesis was awarded the Jubilee Research Prize.

PREFACE.

The present treatise claims to be a critical study of the operation of war-time price controls in India. The writing of the manuscript was completed in June 1946. The reader must not, therefore, expect to find here any discussion of developments that took place after June 1946. I have, however, appended a brief critical note on the new policy of liquidation of controls which was launched on December 10, 1947.

My thanks are due to my teachers, Dr. J. P. Niyogi, University Professor of Economics, Calcutta University and Dr. J. C. Sinha, Senior Professor of Economics, Presidency College, Calcutta, and to Dr. S. K. Bose of the Economics Department, Calcutta University, for the kind encouragement and useful suggestions I received from them. My thanks are also due to Sree Biswanath Banerji, M.A., Librarian, Central Library, Calcutta, who kindly extended to me all sorts of facilities for using the University Library even when official duties took me, in the midst of my preparation of the present thesis, away from Calcutta to Chittagong.

For unavoidable reasons, the book had to be printed in parts in two different presses. My thanks are particularly due to the Manager, Temple Press, Calcutta, who kindly undertook to print the latter part of the manuscript.

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R. N. CHATERJI.

Calcutta,
March, 1948.

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PRICE CONTROL AND RATIONING IN INDIA

CHAPTER I

INTRODUCTION—Theoretical Aspects of the Problem

Price control and rationing have played an important role in the economy of the second world war. Even now when the war is over, the twin principles of price control and rationing are playing a very significant part in the shaping of the economic policy of ex-belligerent countries in the chaotic conditions created by the war's after-math. The degree of success achieved in different countries in the practical application of the above principles, however, has differed much from country to country, dependent as it has been upon a wide variety of factors which have not been uniformly present everywhere. The present treatise is devoted to a critical study of the various experiments in price control and rationing which have been made by the Government of India and the different Provincial Governments, particularly the Government of Bengal, during the last few years. Such a study, however, may well be prefaced by a brief theoretical discussion of the economics of price control and rationing to which we shall presently address ourselves.

Price control and rationing are distinct but allied phenomena. The essence of price control lies in the fact that it implies an artificial regimentation of prices. A "controlled" price is fundamentally distinct from the market price in that it is not determined by a free interplay of market forces. A price that is controlled may be higher than the market price, but it may also be lower. Nor is it necessary for a "controlled" price to remain absolutely fixed or static over a period of time. A price that is controlled may also change from time to time, only the extent and the timing of the change must depend on the

policy of the Government, though, of course, no Government can work out its price policy programme in a vacuum in complete disregard of market economic forces. The concept of rationing, on the other hand, refers to state control over individual consumption. In a free economic society the individual is free to consume what he likes subject to considerations of its availability, and in whatever quantity he likes, provided, of course, he has got the necessary purchasing power. Rationing limits this individual freedom of choice. Under a system of universal over-all rationing, the entire range of individual consumption is principally determined by the state in the sense that the maximum amount of different varieties of consumable commodities which may be purchased by the individual is determined by the state. It does not depend either on individual choice, or on the length of the individual purse.

Price control and rationing are thus quite distinct concepts : one belongs to the realm of the value theory, while the other belongs to the realm of consumption. None the less there is a close inter-dependence between the two phenomena. Price control can hardly become effective in wartime when shortages, often very acute shortages, in the supplies of various essential commodities become the very order of the day, unless demand is kept under strict control by means of a system of rationing. Thus rationing is an aid to effective price control. On the other hand, the success of a system of rationing depends very largely upon a policy of price control. If the object of a rationing system is to effect an equitable distribution of the available supplies of consumables, that object cannot be fulfilled unless the prices of the rationed goods are kept down to a level which brings them within the reach of the lowest income brackets in the community. Rationing depends on price-control in another sense too. The controlled price must be high enough to give adequate inducement to producers to produce sufficiently for the maintenance of a system of rationing. The effectiveness of a system of rationing, it may be noted, depends upon the availability of supplies which are necessary for honouring the rationing obligations. Thus rationing also depends on price control.

Price control and rationing are inter-dependent in other ways too. If rationing is restricted only to a few commodities, the policy of a general price control may well be defeated in as much as the released purchasing power due to restriction of consumption in the rationed market may well be spent in the non-rationed market leading to a steep rise in the prices of non-rationed goods. "The deflationary effect on the rationed market may be more than offset by the inflationary effect on the non-rationed market."* Thus the moderating influence of the rationing system on the price level depends on its range and scope. The wider the range of rationing, the greater its influence on the policy of price control.

The idea of price control is by no means a recent development in economic thought or practice. Both ancient and medieval thinkers were very much fascinated by the concept of the "just price". Abnormally high prices of essential commodities brought about by "cornering" or similar devices were condemned as being ethically unjust by ancient thinkers like Aristotle and medieval philosophers like Thomas Acquinas. Nor was medieval interest in price control confined to the field of mere speculation. The various craft-gilds or merchant-gilds which functioned in the feudal economic order were notorious for their zeal for price fixation. Indeed, this medieval practice of price fixing outlived the middle ages themselves and found enthusiastic adherents in the sixteenth and seventeenth centuries, particularly among the Tudor monarchs of England, specially in Queen Elizabeth. It was only with the rise of the *laissezfaire* philosophy in the second half of the eighteenth century that the idea of State interference with the course of market prices gradually went out of fashion and it came to be generally believed that market prices depend upon the uncontrollable forces of supply and demand and as such they cannot be arbitrarily interfered with by a simple fiat of the State. But even this belief in the immutability of the law of supply and demand, so

* Quoted from "War-time Rationing and Consumption", League of Nations 1942.

ardently fostered by the classical economic doctrine, did not last long. The need for controlling the prices of monopoly products, particularly the prices of public utility services, even in normal peace-time, has been universally recognised, while in war-time the modern State does not hesitate to exercise effective control over the entire economic domain. Thus the first world war witnessed the most comprehensive experiments in price control throughout Europe and the U.S.A. Even in the inter-war period a comprehensive programme of price control was launched upon by the Government of the U.S.A. under the National Recovery Administration. There was, however, a notable difference in the objective of price control policy during the first world war and that during the Great Depression of the thirties. Whereas during the world war the main object of price control was to prevent a sky 'rocketting' of prices, the object during the depression years was to salvage prices from the deep slough of the depression, at any rate to prevent any further decline in prices.

The experiment in price control during the second world war has naturally a family resemblance to its counter-part during the first world war, though, of course, the nature of the forces and the factors governing the situation were not the same during the two world wars. Generally speaking, the main problem of price control in war time is to prevent an abnormal rise in the price level. Prices tend to go up in war-time for a variety of reasons. In the first place, the normal relationship between supply and demand tends to become distorted during a war. A great war creates a heavy demand for particular categories of commodities for the purpose of feeding the war machine. Such a sudden huge demand is bound to cause a steep rise in the price level even in normal times in as much as the productive capacity of the country takes time to be fully adjusted to a sudden expansion of demand. In war-time, this tendency becomes all the more aggravated, because productive capacity may not be capable of the necessary degree of expansion on account of various restrictions and handicaps associated with a totalitarian war. Secondly, prices tend to go up because the volume of purchasing power in the

hands of the public increases tremendously during a war. So long as increased employment is provided by an increased production of consumption goods, there need not be any rise in the price level at all. But unfortunately war-time employment does not lead to an increased production of consumption goods, since the very essence of a war economy lies in the promotion of the maximum possible diversion of different factors of production from peacetime work to the production of ammunitions and other war materials. Thus, on the one hand, we find increased employment, increased purchasing power and a general diffusion of monetary prosperity ; on the other hand, we find dwindling supplies of civilian goods, growing shortages of various types of goods and even the virtual disappearance of particular categories of goods, specially those which were formerly imported from the enemy countries. A rise in price is the natural corollary to such developments. Prices may also tend to go up because of increased costs of production or increased costs of imports. Costs of production tend to go up, the more we approximate to a state of full employment. Prices of particular factors of production which are more or less inelastic in supply may also go up even long before the level of full employment is reached. Again, costs may rise on account of war losses (due to enemy action) or on account of high war risk insurance charges. Besides, speculation, hoarding, cornering and allied practices may play a variety of roles in bringing about the upward movement of prices. Above all, if there is inflation or fear of inflation or depreciation of the currency, some amount of rise in the price level may be quite inevitable.

In normal times, the price mechanism plays an important part in correcting a temporary mal-adjustment between supply and demand. If prices become high on account of shortages, such high prices help to increase the supply of the commodities in question and thereby lead to a lowering of the price. In war-time the price mechanism does not function in this way. Here shortages are not corrected for the simple reason that the entire economic system is geared to a war basis and the factors of production are more or less frozen and cannot move freely from industry to indus-

try, or from place to place. It is for this reason that it becomes necessary to institute statutory price controls whenever it is felt that prices are higher than what they ought to be.

A policy of price control may be actuated by a variety of motives. Ordinary sense of fairness and justice requires that nobody should be allowed to make any undue profit out of the nation's difficulties or distress. Thus stockists and manufacturers are prevented from taking an undue advantage of their favourable position *vis-a-vis* the rest of the community. Professor Pigou has referred to two alternative ways of dealing with this situation. The State may allow the fortunately placed sellers to charge as high prices as they can and then make them disgorge their abnormal profit by imposing on them high excess profit tax. Alternatively, the State may arbitrarily fix commodity prices in such a manner that abnormal profits may not at all accrue from their sale. From the point of view of the sellers or stockists, the two methods come to much the same thing. But it does make much difference to the consumers of the commodity in question. For, "whereas under the maximum price plan they are left practically untouched, under the excess profits plan a special levy is, in effect, placed upon them for the benefit of the general tax payers".* If the tax payers themselves are buyers of the commodity in question in the same proportion in which they are tax-payers, then also the two methods may make no difference. But, as a rule, the ordinary people play a much larger part as buyers of staple articles of daily consumption than they play as tax-payers. In such cases the excess profits plan, in effect, taxes the poor people for the benefit of the rich whose tax burden is *pro tanto* reduced. Hence the maximum price plan is generally favoured in war time.

Protection of the poor consumer,** though the major objective of price control, is not, however, the only consi-

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* Pigou—Economics of Welfare.

** So far it has been implicitly assumed that consumers are harmed by an instability of prices. This view, however, is not universally accepted. Mr. Waugh, for instance, has tried to establish the opposit

deration which underlies price control measures. The Government is also vitally interested in price control because it happens to be a very big buyer of all sorts of commodities for direct military purposes. The Government

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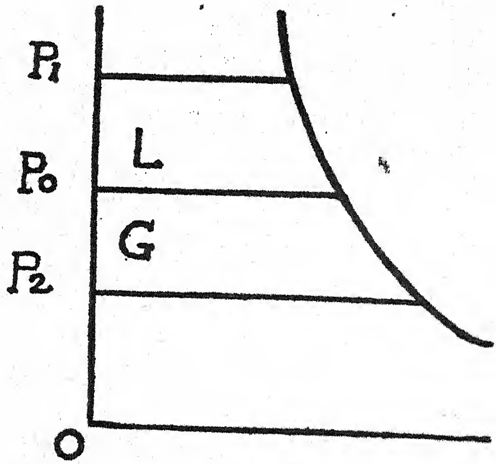
thesis that consumers are harmed by price instability and that they benefit from an instability of prices His argument is as follows: (Vide Quarterly Journal of Economics August '44) Let the price of any commodity be P_1 in one period of time and P_2 in another equal period. If these prices are unequal, every individual consumer of the commodity will enjoy a greater average consumer's surplus in the two periods than if the price were stabilised at the arithmetic mean, $P_0 = \frac{1}{2}(P_1 + P_2)$



Here two situations are compared: first, if the price is supposed to remain stable at P_0, and second, if the price is P_1 in one period and P_2 in the next period. When the price is P_1, (Compared to the situation P_0), the loss if Consumer's surplus is marked by the area L. When the price is P_2, (Compared to the situation P_0), the gain in Consumer's surplus is marked by G. Since G must be greater tha L, whenever the demand curve slopes downwards to the right, the Consumer is benefited by price instability. This proposition holds good if there are N different prices in N equal periods. Mr. Waugh has also tried to prove that the gain in consumer's surplus will be approximately in proporation to the square of the price variation.

is also interested in price control because otherwise it would have to pay higher wages and salaries to its own employees in the event of a rise in the cost of living Index number.

Lastly, it may be mentioned that the object of price control may well be to promote economy in production rather than merely to protect a consumer. This aspect of price control policy was particularly manifest in the German war economy during the second world war. In Germany the failure to reduce prices to the utmost possible extent was made a punishable offence in the same way as an unjustified increase. Under the War Economy Degree of September 4, 1939, special cost increases resulting from war risks or even war losses were not allowed to be passed on in the higher prices. Price control came to be used increasingly as a means of promoting efficiency and economy in production. This was important since the profit motive and competition,—the forces ensuring efficiency and economy in a free system, were more and more eliminated.*

The problem of price control is to be studied in relation to different types of market organisations as well as to the general characteristics of the economic structure of the country. In a perfectly competitive market, price control is a matter of classic difficulty. The job of the Price Controller may be almost as hopeless as that of King Canute when he tried to set a limit to the advance of the sea. But the problem may not be so very intractable in an imperfectly competitive market where the Price Controller's task is simplified by the reduction in the number of sellers whose production cost and profit margin may be much more easily ascertained for the purpose of imposing price ceilings. Again, in so far as price control depends upon the existence of control over supplies, an imperfect market greatly helps price control because it facilitates control over supply. Price control presents the least practical difficulty where there is a perfect monopoly. In practice, however, both perfect competition and perfect monopoly are very rare things and the actual market is characterised by a very long gradient between the two poles of competition and mono-

* Vide World Economic Survey 1939-40.

poly which accounts for the varying difficulty of instituting price control with respect to different commodities.

It is a commonplace observation that successful price control depends on control over both supply and demand. When supply is limited or inelastic, price control becomes successful only if effective demand is controlled by a system of rationing. It is, however, conceivable that price control may also become successful even if there is no formal rationing. The seller may distribute his limited stocks only among his established customers and at the controlled rate. It all depends on the sense of honesty and of responsibility possessed by the dealers. Rationing may be necessary in such cases not so much as an aid to price control measures but for replacing the individual businessman's allocation by a system of social allocation.

Again, while price control depends upon the proper adjustment of relationships between the supply and the demand, supply and demand relationships are to be understood with reference not to a point of time but to a period of time. For instance, when effective demand is increasing, the maximum price is to be settled after taking into consideration not only the existing supply but also the future potential supply which may also be dependent on the level of the maximum price laid down.

There are both direct and indirect methods of price fixation. Direct price fixing may take any of the following forms* :—

(a) A maximum selling price ;
(b) A minimum selling price ;
(c) Both a maximum and a minimum price ;
(d) Specific price-fixing ;
(e) Fixed price relationship.

Under the maximum price method only the ceiling price is laid down by the Government. The actual market price may well be below the ceiling price. Where conditions of scarcity prevail, actual price may well coincide with the maximum selling price. Where only the minimum price

* Vide Backman—Government price-fixing.

is laid down, a limit is set to a possible decline in the market price. Under conditions of shortages in supply, the minimum price regulation may have very little practical significance. As a rule, the maximum price method is useful under conditions of shortage, while the minimum price method is useful under conditions of glut. The former method, therefore, primarily applies to war conditions while the latter method applies primarily to conditions of depression. Under special circumstances, a combination of the two methods may be found to be useful.

The maximum price method may take either of the two forms :

Single or bulk-line price for the entire out-put or a system of different prices for different firms. Under the single price system, the price is fixed high enough to ensure profitable operations by many of the high cost or *bulk-line* producers. This is also known as *bulk-line* price fixing. Bulk-line costs refer to the unit costs of the marginal producer whose out-put is considered essential. It is however not necessary that the *bulk-line* price should be fixed at the cost level of the most inefficient firm. It may be a good solution if the *bulk-line* price is fixed in such a way as to cover the marginal costs of, say, 90% of the productive capacity.

One great defect of the bulk-line price fixing method is that under it large profits are reaped by the low-cost or the most efficient producers. This defect may, however, be overcome if the method of differential price fixing is adopted under which different price ceilings may be imposed on different firms. But this method is not free from various objections. In the first place, it may lead to an awkward situation in which one and the same commodity may sell at different prices to different consumers. This is an intolerable situation. A way out may, however, be found out if the entire out-put is purchased from different manufacturers at different prices and then sold to the public at an average 'pool' price.

Historically speaking, the maximum price method has been applied in three different ways :—

1. The historical commodity price freeze ;
2. The administratively determined price ceiling ; and
3. Formula pricing.*

Under the historical commodity price freeze method, the actual catalogue price fixed by each manufacturer on a given base date is declared to be the maximum price. This is an individual firm type of freeze since the maxima are the effective sale prices for the different manufacturers. This method, however, may lead to difficulties in particular cases.

In the first place, certain manufacturers who have not been in a very happy position at the base date may feel the squeeze, the ruling price at the base date being unduly low or depressed. Alternatively, the historical commodity price freeze method may give rise to unduly high profits of certain other manufacturers. Besides, this method is not applicable to individual or non-standard products. Another objection that can be urged against this method is that the costs of production may go on increasing if there is monetary inflation or if there is an excessive demand for certain factors of production which are inelastic in supply. The historical commodity price freeze method, therefore, can be legitimately employed only if it is accompanied by a factor price freeze method. We cannot legitimately ask the manufacturer to sell his out-put at the ruling price of yesterday unless we take steps to ensure the supply to the manufacturer of the necessary factors of production at yesterday's ruling prices as well. This is particularly necessary whenever the structure of production happens to be vertically integrated.

The second method, namely, the administratively determinded maximum price method is a method under which the Government either establishes a single bulk-line price for a given commodity or sets up different prices for different firms. Leaving aside the controversy regarding the relative merits of bulk-line price fixing versus differential pricing, there are various difficulties in the assessment of

* Vide article by W. A. Leiswanger in the American Economic Review January 1943.

the different elements which go to make up the individual or marginal costs of production. In the present imperfect stage of the science of cost accounting, it is extremely difficult to find out a universally acceptable basis or standard for calculating allowances for depreciation or obsolescence. How to make depletion or depreciation allowances for wasting assets like mines or for factories working on double or triple shifts under the abnormal pressure of war demand with little or no facilities for repairs or overhaul ? (A further complicating factor of the situation is the diversity of practices followed in different countries even in normal times. For example, there is a provision for the grant of depletion allowance for wasting assets in the U. S. A., but there is none in the U. K., though for purposes of calculating E. P. T. liability some concessions were made by the British Treasury during this war.) Again cost accountants are not unanimous about the rate of allowance to be made for marketing expenses or for the use of own capital and land as distinguished from borrowed capital or rented land. Above all, the question is how to find out the marginal costs of production when the position of the margin itself depends on the everchanging position of supply and demand ?

The cost of production basis for price fixing becomes still more difficult to apply when different prices are to be fixed for different manufacturers. A vast army of qualified accountants has got to be employed which will involve huge administrative costs and create numerous loopholes for corruption. A huge Inspectorate staff will also be necessary for attending to complaints.

So far, we have been dealing with the difficulty of determining the manufacturing costs only. If the object of price control is to guard the interest of the consumer, it will be necessary for the State to lay down the maximum margin for the entire chain of Distribution. Sometimes only the final retail selling price is fixed (in addition to the manufacturers' selling price) with the hope that the different intermediaries between the manufacturers and the final consumer will be able to divide appropriately

among themselves the total distributors' margin. This method provides for some degree of elasticity in the distribution of total margin allowed among the different parties. A great defect of this system, however, is that the stronger parties in the chain of distribution may try to appropriate an unduly large part of the total profits allowed. The Price Controller in such cases is forced to resort to a more rigid method of determining the margin for each class of distributor.

The third method known as "Formula pricing" is usually employed in the case of non-standard products. There are three patterns of formula pricing :—

(1) The standard product reference method ;
(2) The margin freeze method, and
(3) The factor price freeze method.

Under the standard product reference method, if the commodity in question is a modified standard product, the manufacturer is required to list the differences between the new products and the standard products. These cost differentials are reviewed by the price controlling authorities for the purpose of final price fixation. Under the margin freeze method, the distributors' (or the manufacturers') margin is frozen. Lastly, we come to the factor price freeze method under which it is assumed that factor prices are fixed and price changes are allowed only for technological reasons. Here the squeeze is on the manufacturer if wage rates or material prices or overhead expenses show any increase.

Minimum price-fixing means the setting up of a price below which sale transactions are not permitted to take place. Whereas under the maximum price method a *ceiling* is imposed beyond which prices are not allowed to rise, under the minimum price method a *floor* is set below which prices are not allowed to decline. The former method is necessary for protecting the consumer. The latter method is necessary for the protection of the producer. Although minimum price-fixing is particularly important in a period of depression, it may also be necessary in war-time in order to give encouragement to producers of particular classes of goods, particularly agricultural

goods. The theoretical difficulty is, however, quite as much formidable in the case of minimum price-fixing as in the case of maximum price-fixation. What should be the basis of price-fixation? If the minimum price is set too low, i.e. lower than what would prevail under competitive conditions, it can do neither harm nor benefit. If, however, it is set too high, there is the risk of both declining demand (unless demand is absolutely inelastic) and expanding supply. Even the most inefficient producer will be enabled to reap guaranteed profits and all motives to economy in production will be destroyed. More-over, the problem of carrying costs and of storage space will arise. If the state comes forward to purchase all market offers at the high minimum price, the financial burden may easily prove to be too heavy. If, on the other hand, the state is unwilling or unable to purchase all that is offered for sale, there will be widespread evasions and the minimum price regulations will break down (as in the case of the lumber industry in the U. S. A. under the N. R. A.). Again, if the object of minimum price-fixation is to guarantee a 'reasonable' profit to all producers, there is the further question: how to find out the level of profit which will be admitted to be reasonable? The price-fixer, the consumer and the producer, each may have quite different notions about 'reasonableness' and it may prove extremely difficult to reconcile the mutually conflicting views. More-over, there are different classes of producers who may be quite unequally situated as regards their individual costs of production. Are we to set different minimum prices for different grades of producers, or a single minimum price based on the bulk-line cost principle or the average cost principle? If the bulk-line method is chosen, the danger of over-production will remain, while under the average cost principle, production may well remain far below the target. In the last analysis, there may be an arbitrary element in minimum price-fixing, as there is likely to be in maximum price-fixing, and frequent reviews of both 'floor' and 'ceiling' prices may be necessary if the purpose of price-fixation is not to be defeated.

Direct price-fixing takes the shape of the setting up of

both a maximum and a minimum price when it is desired to protect both the consumer and the producer. All the difficulties involved in fixing the 'ceiling' and the 'floor' price are present in this case and we need not go over them again.

Specific price-fixing means the setting up of a fixed price for a particular commodity. The same price is at once the maximum and the minimum. The specific price is the description of a state of affairs in which the gap between the maximum and the minimum price is reduced to zero.

The specific price may take either of two forms : it may remain fixed for a fairly long-period or it may take the shape of a changing schedule of prices, a particular price ruling over a specified interval of time. The changing schedule of prices which is generally applied to agricultural goods may slope upwards when the intention of the government is to induce producers to hold their stocks from the market in order to prevent an undue slump due to a sudden dumping of stocks on the market in the harvest season. It may also slope downwards when the intention of the Government is to induce producers to sell their stocks as rapidly as possible. The former type is appropriate to a state of depression, while the latter form is appropriate under conditions of speculative hoarding. Specific price-fixing is a much more difficult matter than the setting up of a maximum or a minimum price.

Fixed price-relationship means the fixing of the price of a commodity at a pre-determined ratio to that of another. Thus there is a base price with reference to which the price of the controlled commodity is sought to be fixed. The base price may be a fixed price or a changing price. In the latter case fixed price relationship may be lacking in precision and definiteness. Again, the controlled price may be arrived at either by adding an absolute sum to base price or simply by allowing a percentage increase on the base price. This method may be adopted when it is desired to prevent a shift of the demand from one commodity to its substitute. For example, the prices of sugar and gur may be fixed at an appropriate ratio in order to prevent the

normal consumers of gur from going over to sugar consumption. The method of fixed price relationship is also applied in the fixation of differnt margins for different types of distributors. A great defect of this method is that it tends to stereotype a particular historical or arbitrarily conceived relationship between the prices of different commodities or between the different prices of the same commodity in different stages of production. Again, if the same margin is fixed for a particular class of distributors, efficient and inefficient traders are treated alike and the natural economic process of weeding out the misfits is checked.

So far we have been dealing primarily with different ways of direct price fixing. Experience, however, has proved that for purposes of effective price control direct methods of price fixation must be supplemented by indirect methods. These indirect methods may take various forms, e.g., production control, control over supply and demand, restrictions on commodity movements as well as various monetary and fiscal measures. Production control may take either of the two forms :—

(1) deliberate curtailment of production, or
(2) deliberate expansion.

If the problem is to prevent an undue decline in the price level in a period of general deflation or localised depression, a minimum price may be made effective only if practical steps are taken for the curtailment of production. In this connection we may refer to the various jute restriction schemes which have been launched from time to time by the Government of Bengal for the purpose of preventing an undue fall in the price of raw jute. In war time and also during the after-math of the war when the problem generally is to prevent a steep soaring of price, the policy of maximum price fixation can become successful only if it is supplemented or supported by positive measures for stimulating production or controlling demand. Production may be stimulated in various ways, e.g., by requiring that a certain part of the available productive capacity be devoted to the production of a specified type of out-put, by

sponsoring schemes of rationalisation which may involve the elimination of misfits and amalgamation of different firms, by rendering positive help in the shape of supplies of machinery, spare parts and technical advice to the firms engaged in producing essential goods, by eliminating wastes of superfluity or luxury, by offering inducements in the shape of bonus or tax exemption to firms whose output may exceed an agreed target (as under various premium price plans).

By stimulating production the Price Controller helps much to diminish the gap between demand and supply and to the extent that he succeeds in doing so the maximum price tends to approximate to the long-period equilibrium price. As a rule, however, it is seldom possible to expand production to the desired extent in the highly abnormal conditions created by a Great War. A gap of more or less considerable dimension persists. Under such circumstances further measures are generally found to be necessary for making price control effective. These measures take the shape of control over supply and of control over demand. Control over supply may be exercised in various ways. In its most drastic application it may take the shape of a complete State requisitioning of the entire domestic or imported supply of the commodity in question. The more usual method is to institute a universal system of licensing under which all producers are required to take out a licence and to submit periodical returns to the Licensing Authority showing their stock in possession and other relevant details. The licensed manufacturers and dealers are required to dispose of their goods to approved parties only and at scheduled prices. Thus all individual initiative in production, bargaining, and marketing is destroyed. The industry and the trade are both brought under ruthless State regimentation as a condition precedent to their survival in a planned regime. The licensing system ensures that the goods are not spirited away, the moment ceiling prices (which are below the market prices) are declared. There is usually a strong Enforcement Branch whose business is to see that the terms and the conditions of the licence are not violated with

impunity. The co-operation of the public is also sought since the most elaborate scheme of price control may be easily defeated by a conspiracy of buyers with sellers. If buyers are prepared to pay more than the ceiling price without any grudge, it may be extremely difficult for the State to make the price control effective. It is for this reason that some sort of consumers' council or consumers' advisory board is a more or less regular feature of most price control schemes.

Before concluding this discussion, some observations may be made regarding the limitations of price control. In the first place, some degree of rise in price may be unavoidable if there is a rise in the cost of production. In war-time costs of production may rise to some extent in the case of imported goods on account of increased freight and Insurance charges. Or again, costs of imported goods may rise if there is depreciation of the local currency. But even in such cases price control may be made effective if the State follows a policy of subsidy, as has been done by the U. K. during the second world war. Secondly, price control may be virtually defeated through a lowering of the quality of the commodity in question. The same name may be applicable to different qualities of the same commodity. The Price Controller's job may be well done only if it is possible to designate different grades or qualities of a particular commodity and to assign different prices for those different qualities. Thirdly, it may be observed, rises in price in war-time are not always a sign of speculation, hoarding or profiteering, but may reveal deeper mal-adjustments between production and consumption. It follows that as long as the price control concentrates wholly on the price phenomena themselves, it may be merely dealing with symptoms.* Lastly, it should be remembered that in exercising control over particular commodity prices one should take a macroscopic rather than a microscopic view. The economic system is similar to a delicate machine in which different parts are so closely inter-related that any local disturbance will have

* Vide 10th Annual Report—Bank for International Settlements 1940.

its reverberations in numerous other parts as well. Jules Backman* has likened this inter-relationship to a series of ripples that spread out when water in a lake is hit by a stone. These ripples flow in every direction. Similarly, in the economic sphere, if it is sought to control particular commodity prices without controlling the prices of the related goods, whether substitutes or essential ingredients, the object of price control may well be defeated. Again, it often happens that a particular factor of production has many alternative uses. Price control in such cases may be effective only if it is exercised over all the alternative products.

Rationing, as we have already seen, implies controlled consumption and controlled distribution. In a free economy the total amount of individual consumption depends primarily upon three factors :—

(1) the individual's tastes and choice ;
(2) the market price of different commodities ;
(3) the pattern of distribution of money income in the society.

In a free economy, if shortages in the supply of particular goods develop, equilibrium between supply and demand is maintained with the help of the price mechanism. Rise in price occurs which at once limits demand to the extent necessary for maintaining current market equilibrium and sets in motion forces for expansion of supply through the diversion of factors of production to the industry concerned. The imposition of a system of rationing does away with the need for the operation of price mechanism for the restoration of a lost equilibrium. It also reduces the significance of differences in money income and, to some extent, of differences in individual tastes and choice. The number of points or coupons attached to the individual ration card, and not the level of the individual money income, determines the maximum level of individual consumption.

Rationing thus substitutes State allocation of consumption goods for private allocation. Such a system necessarily violates the "principle of optimum allocation of goods

* Jules Backman—Government Price-fixing.

because rations have to be more or less equal to satisfy common notions of fairness and thus consumers are not able to adjust the quantities of the different goods they consume to the different proportions which, with their different tastes and needs, would equalise their marginal substitutabilities".* None-the-less, rationing is generally resorted to in a period of general shortages for the sake of securing some sort of rough justice or equity in distribution. If there were no rationing system in force, the wealthier section of the community might easily monopolise the consumption of commodities in short supply by paying as high a price as might be demanded. Rationing alone ensures an equitable supply of such commodities to the lower income brackets. In so far as rationing ensures a more or less equal share of consumption goods among different sections of the public, irrespective of differences in wealth and income, it certainly reduces the significance of individual income differences and thus gives rise to a new form of consumer economy which is associated more with a socialistic structure of society than with the general capitalistic pattern.

The purposes of war-time rationing may be quite manifold. In the first place, rationing ensures an equitable distribution of commodities in short supply among all classes of the community. This is a very notable task and a necessary task too, since it prevents undue hardship to the poorer section of the community and helps to maintain the civilian morale which is essential to the satisfactory prosecution of a total war. Secondly, rationing, by restricting civilian consumption, helps to release many factors of production for employment for direct war purposes. This aspect of rationing is usually prominent with regard to non-essential goods the production of which is reduced to the greatest possible extent in order to divert factors of production to war uses. This second objective of rationing is also fulfilled by means of a policy of standardisation and rationalisation which rationing promotes. In normal peace time, there is usually a good deal of variety in production

* Vide Lerner—The Economics of Control.

patterns to suit the tastes of different classes of consumers. This might involve wastes and superfluities. The economy of a total war, of which rationing is an integral part demands the elimination of all such wastes. This object is largely fulfilled through the concentration of production on what is known as the utility programme. In the British and German rationing systems the utility programme has played a very conspicuous role. Utility articles have been defined in the U. K. as "articles which are defined, within more or less narrow limits, by minimum specifications, etc. of the nature or the quantity of material used, of a size or weight or of method of construction, have maximum prices and normally bear a statutory mark of identification". Thus in the British utility cloth programme, to quote the words of Dr. Dalton, "there is no room for the production of ornaments and knick-knacks, of frills and fripperies". The British utility products programme includes within its scope, besides clothing with which it was initially associated, boots, shoes, household textiles, pottery, glassware, mattresses, furniture, umbrella, cutlery, pencils, mechanical lighters, suitcases and even wedding rings. Rationing is thus a powerful instrument for enforcing economy in production. The third objective of rationing is to serve as an aid to measures of price control. We have already referred to the general tendency towards rising prices in war time which is a joint outcome of an increasing rise in money incomes and dwindling supplies of civilian consumption goods. A considerable portion of war-inflated money incomes may no doubt be absorbed by means of a well-conceived taxation and borrowing programme. But even then some, and sometimes rather large, gap might persist between demand and supply which means that prices will tend to go up much beyond the statutory ceilings. Price control measures thus break down for one thing because there is a limit to the extent to which the effective rate of taxation may be increased during war-time without impeding maximum production and without destroying the morale and the spirit of co-operation of the business community, and secondly, because the wealthier section of the community might often prefer to resort to capital

disinvestment, assuming that the great bulk of their current income is taken away by the State through one pretext or other, rather than submit to any drastic reduction in their customary standard of consumption. Thus price control in war time may be effective only through a quantitative control over demand by means of a system of rationing.

A possible fourth objective of rationing to which a reference may also be made, though that is seldom consciously or deliberately pursued by most rationing administrations, may be to modify the general pattern of income distribution in favour of the poorer section. Relatively less well-to-do sections may be enabled by means of the rationing technique not only to enjoy an increase in their real income due to limitations imposed on consumption by the rich, but may also have their money incomes increased through the sale of some of their rationing coupons. Persons who have not the necessary amount of purchasing power for using all their ration coupons may find it profitable to sell some of them in exchange for money with which they might use the rest of their coupons. Thus rationing introduces a new form of income, which may be described as 'coupon income' and might release a new stream of purchasing power which may have the effect of modifying appreciably the existing pattern of income distribution.

Rationing may take various forms; according to the size of the field to be covered and the units in which the ration is to be expressed. If the essential scarce commodity happens to be something homogeneous, rationing usually takes the form of assigning a limited quantity of the same to each individual. This is known as specific rationing. During the first world war, *specific rationing* in Europe generally took the form of assigning an equal quantity of the same commodity to different individuals. One great defect of the equal rationing system, however, is that it does not take into account the different needs of different individuals, needs based upon differences in age, state of health, nature of occupations, sex and other relevant factors. On account of these defects, continental rationing systems which were in force during the second world war

took a highly differentiated form. Distinctions have usually been made between heavy workers, very heavy workers and the normal consumer. Different rationing units have also been assigned to different age groups. Protective foods have usually been reserved for or given in large quantities to nursing and expectant mothers and invalids and children. Similarly, in the development of cloth rationing programmes, special needs of women and of men belonging to different occupational or social groups have usually been taken into account. Thus, either the equal rationing system has been replaced by a highly differentiated form of rationing as in the continent, or it has been supplemented by special arrangements for groups with special needs as in the U. K.

When the commodity in question does not happen to be homogeneous in character, specific rationing may well be either impracticable or undesirable ; for instance, in the case of meat, it is well nigh impossible to assign to each and every individual different kinds and cuts of meat. *Group rationing* is usually resorted to in such cases. The individual is allowed to purchase a limited quantity of the different varieties or kinds of commodities included within the group. Under group rationing, commodities are grouped according to their different degrees of substitutability from the point of view of either demand or supply. There is a high degree of substitutability, from the point of view of demand, for different kinds of meat, different types of clothings, and so on and so forth. A high degree of substitutability, from the standpoint of supply, also exists for commodities which are produced with the help of more or less the same materials or the same capital equipment.

Group rationing may take the form of either *value rationing* or *point rationing*. Under value rationing, the individual is allowed to spend a fixed sum of money on the purchase of different commodities included in the group. In the British system of meat rationing, for instance, the consumer has been allowed to spend a certain amount of money each week in the butcher's shop and can buy either a small amount of an expensive cut or a larger quantity of a cheaper meat. Under the point system of

group rationing the individual is allowed to spend a definite number of points or coupons in the purchase of commodities included within the group.

Group rationing gives the individual some amount of freedom of choice which is absent under specific rationing. Specific rationing, however, has the advantage of bringing about a very close correspondence between supply and demand which may not exist under group rationing. The productive machinery may be so handled that supplies may be fully adjusted to the total demand calculated from the number of ration cards issued. Under group rationing, just because the individual has been given some amount of freedom of choice, it may not be possible to adjust fully the supply of different kinds or qualities included in the group to the actual fluctuating market demand. Thus both shortages and abundance in the supply of different commodities may easily develop under the group system.

Group rationing gives rise to various interesting problems which are absent from specific rationing. Under value rationing, the individual who is allowed to spend only a limited sum of money on his total purchases of items included in a group may be tempted to concentrate his purchase on the cheaper qualities. This may lead to a decline in the price of the superior qualities and the consequent decline in their supply unless they happen to be joint products. Concentration of production on the inferior qualities may be desirable from the point of view of economy in production. But economics may be better effected through control over production rather than in an indirect wasteful manner *via* changes in the character of demand. Moreover, "the time at which such changes become desirable or feasible usually will not coincide with the date on which rationing is to be introduced, and the effect of value-group rationing on the price and supply of better qualities cannot be exactly foreseen".* Further, in the case of joint products, no shifting of production in response to changes in demand is possible. In such cases

* Vide article by Hans P Neisser on "Theoretical aspects of Rationing" in the Quarterly Journal of Economics May 1942.

State subsidy may be necessary, if production is not to be reduced or if the price of the inferior product is not to register a compensatory rise.

Under the point system of group-rationing, the State has to perform the unenviable task of determining the point price of different commodities. Here, too, we may expect to find a shifting of demand to commodities with a relatively low point value in view of the limitation to the total point income. Point price may be determined either according to the value of different commodities or according to the service value of resources or other scarce materials embodied in different commodities, e.g. the point price of food commodities may be determined with reference to their nutrition value. Similarly, the point prices of woollen garments may be determined according to their different wool contents. If the ration is small, fixing up of a high point price according to service value may have the effect of driving away demand to the inferior qualities. In such cases, it may be desirable to fix the same point price for superior and inferior qualities, while the money price may be allowed to vary. Thus richer people will buy superior qualities at higher money price, but at the same point price. Where the ration is relatively large, the point price of different commodities may be determined in terms of both service value and the value of materials used in their production. Higher point price may be fixed for better and more costly commodities in order to restrict their demand. Under combined value-and-point rationing, demand will shift to commodities with a high point value but with a relatively low money value, or to commodities with a low point value but with a relatively high money value, according as the individual happens to belong to the poorer or the more well-to-do classes.

Under point rationing, temporary shifting in the supply position of different commodities *vis-a-vis* their demand may be met by an appropriate change in their point prices. If there is abundance in the supply of a particular good its point price may be lowered in order to stimulate demand. Similarly the point price may be raised if shortages develop.

A system of point rationing virtually introduces a new type of currency, a sort of rationing currency, which becomes the principal medium of exchange, while the significance of the more usual form of currency is drastically reduced. The fact that equilibrium between supply and demand has to be maintained by a manipulation in the point price, constitutes, to quote Lerner, a "restoration of the price mechanism in a limited and disguised form, with points taking the place of prices and the coupons, a kind of subsidiary currency".

While group rationing may be applied even to commodities which are amenable to specific rationing, whenever it is thought desirable to give the consumer some amount of freedom of choice, it is nevertheless necessary to retain the technique of specific rationing in some cases. For example, a commodity like petrol, the private consumption of which in war-time has got to be drastically reduced because of its high value from the military point of view, has got to be put on specific rationing. Group rationing is not of much avail for these purposes.

Another variant of group rationing is what Dr. Kalecki has described as "general rationing"*. Under this system, there is a universal over-all rationing under which the individual can spend a limited sum of money on his total consumption expenditure. This general rationing gives the largest amount of freedom of choice to the individual consumer. It also conduces to a good deal of simplification in the rationing administration, since it no longer becomes necessary to allow different ration cards to the same individual for different items of consumables. Distribution under this form of rationing also becomes free from the wastes of allocation associated with ordinary rationing. Dr. Kalecki developed this concept of general rationing as an anti-inflationary device. The problem of price control in war time, it is claimed, would be automatically solved under this plan, since the total volume of consumption expenditure becomes strictly controlled, whatever the rise in the volume of money income under the stimulus of a great war. Kalecki claimed that this plan compares

* Vide Bulletin No. 3 of the Oxford Institute of Statistics.

favourably with the Keynesian plan for *deferred pay*, since under the latter scheme it is possible to maintain normal standard of consumption by means of capital disinvestment.

The device of general rationing, however, is not free from certain serious shortcomings. In the first place, it does not solve the main problems of rationing, namely, the effecting of an equitable distribution of scarce essential commodities. It is extremely likely that there shall be a general scramble for the purchase of scarce essential goods. Secondly, it may be very difficult to effect a proper adjustment between supply and demand, since producers and shopkeepers may not know for certainty the exact shape of public demand for different types of commodities. Further, in view of the general reduction in the total volume of consumption expenditure, we may expect to find a general shifting of demand from better to inferior qualities with a consequent reduction in the price of superior qualities. This may lead to large scale unemployment of factors of production engaged in producing superior goods or quality products, unless generous subsidies are granted by the State. If over-all rationing takes the form of point rationing, the problem becomes even more complicated since it becomes necessary to fix point prices for all sorts of commodities and to maintain a correspondance between point price and money price. Under *over-all value-cum-point* rationing, the individual is given both point income and an upper limit to the volume of money expenditure which may be used for purposes of current consumption. Here the State has to determine both the point price and the money price for different commodities. The volume of individual demand for different classes of goods will depend on two independent variables, namely, the point price and the money price. Thus one and the same commodity will be demanded either if the point price is relatively low and in compensation the money price is relatively high, or if the point price is relatively high and in compensation the money price is relatively low. Thus with a given quantity demanded there is associated an infinite number of *point-price money-price* combinations.

So far we have discussed simply the theoretical aspects of rationing. But rationing is not primarily a problem in economic theory. It is a pragmatic problem in practical administration. The practical rationer has to decide "*whether* to ration, *what* to ration, *when* to ration and particularly *how* to ration."*

The decision *whether* to ration will depend upon a variety of considerations. Before a policy of rationing is decided upon, we have to answer the following questions :

Is it likely that the distributive mechanism will break down if rationing is not resorted to? Does the supply position warrant the assumption of rationing obligations? If supplies are abundant, no rationing is necessary unless of course, it is decided to restrict consumption in order to release factors of production for war uses. Again, if supplies are too scarce or too erratic, it may not be a wise policy to undertake general rationing obligations. On the other hand, if the commodity in question happens to be an essential good like food or clothing, inadequacy of supply is an additional reason for putting the commodity immediately on rationing.

The decision "*what* to ration" similarly depends on a variety of considerations. From the purely administrative point of view, it is desirable to restrict rationing to as narrow a field as possible. Only the essential goods in short supply may be put on rationing. But this consideration may be outweighed by other more vital considerations. For example, a policy of reduction of consumption and of economy in production generally may necessitate a wider application of the rationing principle. Secondly, it may be unfair to limit rationing only to a few articles while leaving untouched various other related goods. Apart from the problem of injustice to particular groups of traders involved in any scheme of partial rationing, there is also the possibility of a shifting of production from the rationed to the non-rationed products.

The decision "*when* to ration" will also depend on a

* Quoted from a paper on rationing read by R. G. Gettel before the American Economic Association, January 1943.

balancing of the following considerations. From certain points of view it is better to resort to rationing as soon as shortages in supply are apprehended. That would at once prevent a demoralising scramble for supplies, panicky hoarding and consequent distress to the ordinary consumer and give the rationing authorities a good deal of time for the formulation of their plans and for ironing out the angularities of the actual rationing administration. On the other hand, there is a good deal of reason in favour of postponing the actual introduction of rationing till its necessity becomes apparent to all and sundry, so that a good public reception may be assured for the rationing discipline. In any case, however, it is imperative that plans for the introduction of rationing should be prepared well in advance. A rationing programme hurriedly conceived and hastily put into operation cannot hope to be very much of a success.

Lastly, we have to decide the question, "*how* to ration". The actual manner in which rationing may be introduced depends upon the nature of the commodity and other relevant factors. If the supply is too small or too erratic to permit of a general rationing, or if the commodity happens to be such that it can be of use only to particular classes of persons, then the *permit* system of rationing may be resorted to. For example, petrol, motor car, refrigerator, radio, fountain pen, etc.—all such commodities may be distributed by the certificate method. The certificate method again may be employed either in a general way or in a discriminating manner. In the case of motor spirit, for instance, a *basic* ration is usually allotted to all car-owners if the supply situation so permits, while a *supplementary* ration is allotted to those whose occupations require wider use of motor-cars. In the case of fountain pens, radios etc. permits are issued only to those whose needs may be adjudged to be most urgent. Under this method, a good deal of discretion has got to be vested in the permit issuing authorities with consequent loopholes for abuse, corruption, favouritism etc. Sometimes, scarce commodities are also distributed even in a less formal manner. Shop-keepers are simply asked to sell not more than a very limited quantity of the commodity in question to one person at a time ; or sometimes a special type

of shop, the so-called "fair price" shop may be selected for distributing such commodities.

The other forms of rationing, e.g. specific rationing, group rationing etc. have already been discussed and we need not dwell on them any further.

Practical rationing administration has to grapple with various other problems as well. Is the consumer to be given the right to purchase his rations anywhere he likes? Or should he be tied to a single retailer? Usually, for the sake of administrative convenience, every individual ration card holder is required to get his ration card registered with a particular shop. This may be a convenient arrangement for the consumer provided the registering shop is not situated far away from his normal place of residence. On the other hand, however, the tying of an individual consumer to a particular shop has the disadvantage of placing him entirely at the mercy of the shopkeeper. The shopkeeper is no longer under the necessity of observing common business courtesy or of supplying the best quality products and virtually becomes or behaves like a typical sundried bureaucrat.

Practical rationing administration should be responsive to public criticisms and suggestions and characterised by a high degree of flexibility. This responsiveness is secured only if the general public are associated, in some form or other, with the rationing administration. Successful administration of rationing also depends upon the amount of co-operation which may be received from the business community. If businessmen adopt a hostile attitude, the ordinary civil servant with his meagre knowledge of business technicalites may make quite a mess of the task of distribution of essential daily necessaries of life.

CHAPTER II

Evolution of Price Control in India

In the realm of prices the second World War did not cast its shadow before it. Prices of commodities in general and of raw materials in particular, after the collapse of the short-lived boom of 1935/7, showed on the whole a tendency to decline, a tendency which lasted up to August 1939. The outbreak of the war was a general signal of upward movements of prices outside Europe on the expectation of a high rate of consumption of materials and of finished products for Military purposes,and of dislocations in the normal trade channels, while in Europe itself the cost price structures of different countries felt the impact of renewed currency depreciation, higher transport costs, enhanced tax and direct State intervention in the realm of prices. Bitter memories of the disastrous consequences of inflation during the first world war were principally responsible for a good deal of initial preparedness, on the part of the belligerent European Governments, for countering the forces of inflation during the second world war. Indeed, at last one country, namely Germany, adopted a system of price control almost three years before the outbreak. The principal method adopted by her was the familiar device of price stop which forbids the increase of prices above the level prevailing on a fixed date except under well-defined conditions. The base date was 7th October 1936 and no price could be changed without previous approval by the Price Commissioner. The price stop method was also employed by England and France, though the base date was September 1939. In England, prices might be adjusted above this level when such adjustment was necessitated by increased cost of materials or higher costs of selling on production including wages, insurance charges etc. In France, prices could be increased by way of exception when such increases were "justified by the *defacto* conditions in which commercial

concerns were carrying on business or by fluctuations in prices of the imported raw materials." With effect from 1st May 1940, however, increase of price due to increase in costs could be permitted only by the National Committee for price control.

As the war progressed and as the impact of the rising tempo of war effort and of new developments of the fast changing war situation was felt differently in different sections of the market, the technique of price control was suitably altered. Generally speaking, the scope and the ambit of control was progressively expanded till the gap between the totalitarian economic systems and the so-called free systems of the great Western democracies became well-high indistinguishable.

In India, as elsewhere, the outbreak of the war was followed by an abrupt speculative rise in retail prices. The immediate reaction of the Government of India was to delegate powers under the Defence of India Rules to the different Provincial Governments to fix prices of bare necessaries of life like foodstuffs, salt, kerosine and ordinary varieties of cloth. But these powers remained mainly as a threat in the background and were not made much use of. It was felt in official quarters that the sudden spurt in the price level was more or less temporary and that it would die down as soon as the speculative fever would be over. Nevertheless, it was agreed that the situation deserved careful watching and that representatives of the Central Government and of different Provincial and State Governments should meet together from time to time for the purpose of making periodical surveys of the pursuit of this policy. The first Price Control Conference was held as early as October 1939. At that time the weekly index number of primary commodities stood at 111.4 only (basic :— week noted August 19, 1939 = 100). The general consensus of opinion at this Conference was opposed to the idea of any interference with the course of price movements. As a matter of fact, the small rise in prices which had taken place was welcomed. It was felt that the agriculturists who had the most gruelling of experiences during the great depression of the thirties should be

allowed to enjoy the benefit of such upward price movement which so far was reflationary rather than inflationary in character. Among other conclusions reached at this Conference, it was agreed that :

(1) in the case of imported goods as well as of goods of all-India importance, the basic price was to be fixed, in the first instance, by the Central Government and in the case of other goods by the Provinces ;
(2) that the normal basis of price control was the replacement cost ;
(3) that it was desirable to develop a price intelligence service ; and
(4) that the list of essential commodities already notified required no modification.

By December 1939, however, the weekly index number had already risen to 135·9. This rather steep rise in price necessitated the summoning of the Second Price Control Conference which was held towards the close of January 1940. This Conference, too, did not favour the idea of price control. It was, however, agreed that if and when price control became necessary, the fixation of prices at primary wholesale markets and at the stage of production was to be a central responsibility, while the retailer's margin was to be determined by the Provincial and the State Governments.

The period between January 1940 and February 1941 was a period of a general price decline, the weekly index number registering a decline from 135.3 to 109.7 during the same period. The index number, however, began to rise again after February 1941 and rose to 138·3 in September 1941, In January 1941, the Central Government delegated to the Provincial Governments the power of prohibiting with-holding from sale of the articles already selected for price-control. When the third Price Control Conference met in October 1941, the general complacent attitude displayed in earlier conferences had almost disappeared, though the principal cause of headache was a rise in the prices of cloth and yarn, following the passing of freezing orders against Japan, rather than the prices of food grains.

Of course, the wheat position was causing some apprehensions. A declaration was, therefore, made at this Conference that the Central Government might intervene any moment if the price of wheat continued to rise any further. As the price of wheat went on soaring, the Central Government issued a general warning to traders on November 2, 1941, to the effect that the Government considered Rs. 4-6-0 per maund at Lyallpur and Hapur to be a suitable maximum price. This warning, however, went unheeded. Accordingly on December 5, 1941, the Central Government declared Rs.4-6-0 per maund to be the maximum price for wheat at Lyallpur and Hapur, while Provincial Governments were authorised to fix maximum prices at any other place "having regard to the normal relations between prices at such places and at Lyallpur and Hapur". This was the step taken by the Government of India towards exercising control over the normal trade machinery and it had its repercussions on the entire markets. The immediate effect of the imposition of price ceiling was the sudden disappearance of wheat from the Punjab markets. In order to conserve supplies, the Punjab Government placed an embargo on the export of wheat except under permit. The need, however, was felt for a machinery for determining a scheme for allocating exportable surplus of wheat from the Punjab. Accordingly, in December 1941 a Wheat Commissioner for India was appointed whose main function was to regulate the distribution of wheat. At the end of March 1942, the maximum price of wheat was raised to Rs.5/- per maund at Lyallpur and Hapur and to Rs. 5-4-0 per maund at Sind centres in order to stimulate the marketing of the new crop. On April 30, 1942, the wheat control order was passed under which all movements of wheat by rail from producing to consuming areas were banned except under permits to be issued by the Wheat Commissioner, while inter-district movements within the producing provinces were left to be controlled by the Provincial Governments concerned. On the basis of this order, an all-India plan for distribution of wheat was prepared and put into operation.

Control over the rail-road movement of wheat was not

inspired by the motive of price control alone. The transport situation in the country also necessitated such controls. The Indian Railways had been passing through an abnormal strain right from the very beginning of the war. The apprehension of Japan's entry into the war, by increasing the tempo of India's war effort, added considerably to this strain on the capacity of Ind an Railways. Thus rigid control over goods traffic became necessary for reasons of transport congestion, if not for any other reason. The subsequent outbreak of the Far Eastern War a so profoundly affected the economic prospects of the country and created altogether new problems of growing complexity. India was rapidly converted into a major base of operations for the war against Japan and the task of feeding, clothing and otherwise catering to the needs of a vast and growing allied Army stationed in or based on India devolved on India's shoulders at a time when the supply position began to deteriorate on account of loss of import facilities, a series of bad harvests, and the conversion of the domestic economic structure to a war basis. On the one hand, there was a big increase in demand both from the Government and from the people of India whose money income had increased tremendously under the stimulus of huge Governmental war expenditure, and on the other hand, the volume of available consumption goods dwindled to a small trickle, while the virtual dislocation of the transport system, also for military reasons, made the task of distribution of available consumption goods almost a hopeless one. The inflationary policy of the Government, taken in conjunction with major military reverses sustained by the allies in 1942 and in the early months of 1943, created an atmosphere of absolute uncertainty in which the speculator and the hoarder easily scored a very good innings over all the forces of control and justice. It is against this background that we have got to consider the results of the Governmental efforts at price control which now became an imperative necessity both in the interest of maintaining civilian morale—a fundamental point in military strategy—and in the interest of the war effort itself.

The Fourth Price Control Conference was held in February 1942. This Conference recognised the necessity of making the most efficient use of the limited transport facility available in the country for the purpose of effecting proper distribution of food grains. The emphasis was shifted from control over prices to control over distribution. It was also recognised that whi'e the distribution of commodities of all-India importance like wheat was to be a central responsibility, other commodities like rice and bajra which had to move only within certain specified zones could be left to the control of regional authorities like Regional Price and Supply Boards and Regional Transport Boards which were to be evolved for that purpose.

The Fifth Price Control Conference met in April 1942. In order to ensure proper distribution, the Conference recommended that wholesale dealers should be licensed by the Provincial and State Governments and that such wholesale dealers should furnish periodical information to the Provincial and State Governments concerned regarding the course of distribution of the foodstuffs handled by them. It was also laid down that in granting licences the existing channels of trade should be maintained as far as possible. The question of licensing retail dealers was left to the discretion of the local Governments. The Conference also warmly welcomed the idea of forming Regional Boards, which was first mooted in the Fourth Price Control Conference, for the purpose of co-ordinating the supply of food grains within each region and of suggesting wholesale prices which might be fixed for articles of regional consumption, for making recommendations to the Central authority in regard to wholesale prices of articles of all-India importance, and for co-ordinating retail prices in adjacent regions. After reviewing the prices of specific commodities, the Conference came to the conclusion that the then prevalent price control over wheat should be maintained. As regards rice, the general opinion was that the price of rice had not yet reached a level at which control was necessary. In case, however, control became necessary, in view of wide differences which

existed both in variety and in price, different maximum prices might have to be fixed in different areas for different qualities of rice. The whole question might be looked into by the Regional Boards which were shortly to be constituted. Similarly, it might become necessary to control the prices of some millets of fairly wide consumption. Here, too, recommendations were to be made by the Regional Boards.

The Conference also recommended some concrete measures for the transfer of the surplus acreage under short-staple cotton to the production of food crops. By the time the sixth Price Control Conference met in September 1942, the menace of the black market was already looming high in the horizon. The Conference was in favour of instituting some system of co-ordinating the purchase of surplus wheat and other food-grains to meet the requirements of the military and of deficit areas. Thus the nucleus of what afterwards came to be known as the "Basic Plan" was born at this Conference. The Conference also recommended the creation of a Civil Supplies Advisory Council and a Central Price and Supply Board for strengthening the price control machinery at the centre. The former body was to consist mainly of representatives of the trade and industry and its functions would be to advise the Central Government on all matters connected with prices, supplies and distribution of commodities, while the latter body would be an executive body constituted to assist the Civil Supplies Commissioner (rice and miscellaneous) and the Wheat Commissioner for India in the performance of their duties relating to food grains. Its functions would be "to advise the Central Government in regard to the formulation of a programme of movement of supplies and advise the Provincial Government in regard to the principles governing the fixation of secondary prices in relation to basic prices", as well as to scrutinise the data received from the Regional Price and Supply Boards and from Provinces and States in regard to surpluses and deficits in different areas. The Conference also recommended the opening of "fair price" shops in poorer localities for bringing down the retail prices of essential

consumer goods in the interest of the poor consumers. Mr. N. R. Sircar who presided over this Conference declared that "time has come when control must cover not only the prices but also the supply and distribution of the controlled commodities ; it is also essential to extend such patterns of control over competitive food grains so that the producer and the seller shall have no incentive to sell these in preference to the controlled commodities".*

Wheat and sugar are the two commodities the prices of which were sought to be controlled up to the first half of 1942. After the fall of Burma, however, the price of rice began to soar up and rice entered into the category of problems.

The Provincial Governments in the principal rice-growing areas were at first faced with problems similar to those which were developed earlier in the wheat markets, namely rise in prices, scramble for supplies, reluctance to sell on the part of growers and traders and so on. In June 1942, the Government of Bengal issued for the first time an order fixing, with effect from 1st July 1942, the maximum prices for medium and coarse rice in the Calcutta market. The wholesale price of rice was fixed at Rs. 5-12-0 per maund. This price reflected the market situation which prevailed several weeks ago but fell far short of the then current market prices. Accordingly, as in the case of wheat in the Punjab, the declaration of a statutory maximum price was immediately followed by a complete disappearance of rice from the normal market. In order to conserve supplies, the export of rice and paddy from the province was prohibited except under permit. In this respect, too, the Punjab example was followed. As, however, rice still refused to appear in the normal market, the Government of Bengal raised the wholesale price by one rupee but the only effect of this measure was to raise the black market price almost exactly by a rupee. In order to relieve the situation, the Government adopted two measures ; first, distribution at controlled price of

*The Indian Information, Nov. 1, 1942.

"denial" stocks* through controlled shops, employers' shops and the Calcutta Corporation (this diminished the demand for rice from the black market); secondly, the decision not to enforce controlled price except in the case of gross profiteering. The above measures helped to restore equilibrium in the rice market, but only temporarily. The situation took a grave turn towards the close of 1942 when, thanks to the Midnapore cyclone, crop disease and other natural calamities, there was a disastrous failure of the aman crop. Psychological factors, transport difficulties and the general speculative fever, all served to accentuate the situation already rendered difficult by the crop failure. The prices of rice and paddy rose abruptly. The suddenness of the rise in price can easily be gauged by the fact that in Burdwan district the price of medium rice rose from Rs. 7-8-0 per maund on 18th November 1942, to Rs. 14/- per maund on 7th December 1942. To cope with the situation, and in order to break the Calcutta market, the Government of Bengal announced on March 11, 1943, their decision to remove every vestige of price control. At the same time, the Government came forward to purchase as much rice and paddy as possible on its own account. Embargoes on inter-district free movement of rice and paddy, however, remained in force. The abolition of control over the price of rice in Bengal was followed by a declaration of free trade in North-East India on 18th May 1943. It was hoped that unrestricted inter-provincial free trade, coupled with internal de-control, would materially help the situation in the Calcutta market, but that hope was never fulfilled. The only effect of the declaration of a free trade zone in North-East India was to raise the price of rice in the neighbouring markets of Bihar and Orissa. Moreover, Bengal did not succeed in importing much rice from the Provincial Governments concerned, which never saw eye to eye with the Central Government in the matter of the free trade zone declaration. The price of rice in the Calcutta market remained above Rs. 30/- per maund throughout the free trade period.

*The phrase 'denial rice' refers to the surplus rice removed from certain costal areas of Bengal out of apprehension of an impending Japanese invasion.

The assumption underlying the policy of statutory price control in Bengal was that stocks were available in the country but that they refused to appear for sale in the normal market in expectation of higher prices in the black market. In order to assess the actual statistical position regarding supply, the Government of Bengal embarked upon food drives, at first in the districts outside Calcutta and Howrah, and subsequently in Calcutta and Howrah. These food drives, however, did not disclose the existence of any appreciable hidden reserves in the country. Once the suspicion about the existence of hidden stocks was dispelled, the Bengal Government moved towards the reversal of the policy of decontrol. In August 1943, the Government of Bengal announced their decision to fix maximum prices for rice and paddy on a descending scale. The rates were Rs. 30/- a maund for rice and Rs. 15/- a maund for paddy between August 28 and September 9, 1943; Rs. 25/- a maund for rice and Rs. 12/8/- a maund for paddy between 10th and 20th September 1943; and Rs. 20/- a maund for rice and Rs. 10/- a maund for paddy from 20th to 25th September onwards. This novel device of a descending scale of maximum prices was calculated to induce both the producer and the trader to come forward and offer to the Government the new Aman crop at the most advantageous price possible. The Government also declared their readiness to purchase all rice and paddy which might be offered to them either by agriculturists or traders at local market rates or at the statutory maximum price, whichever was lower. Unfortunately, however, the scheme was not a success; prices did not come down appreciably and the Government did not succeed in procuring the expected quantities. The great Bengal famine of 1943 which, according to official estimate, took a toll of 35 lakhs of innocent human lives, was a grim confession of the utter failure of the price control measures of the Government. During the period of the famine, the price of rice ranged anywhere between Rs. 40/- to Rs. 100/- per maund in different areas of Bengal. Indeed, in a sense, the famine itself was due to the simple fact that the price of rice was much too high for ordinary people to buy as much as they required for their bare sustenance.

Before proceeding further with the story of the Bengal Government's next experiment with price control in respect of rice, let us for a moment look backward and trace the development of the all-India policy regarding price control from the stage where it stood at the time of the meeting of the Sixth Price Control Conference in September 1942. The first most important development was the creation of the Central Department of Food. Hitherto, the food problem in India was tackled by a multiplicity of Departments with the result that proper co-ordination of work or speedy action was not possible. The Food Department was created for taking over the administration of all measures of control over prices, supply and distribution of foodstuffs and for a forward planning of production. The task before the new Department was one of enormous difficulty. In the first place, there was an over-all shortage of foodstuffs to the tune of nearly 14%. Secondly, there was a complete lack of confidence on the part of the public which accounted for abnormal hoarding on the part of both consumers and producers. Thirdly, there was speculative hoarding on the part of the trader. Since the essence of the problem of price control lay in the possibility of transferring surplus food grains from the surplus to deficit areas, the Government's attention was devoted to the development of a proper machinery of procurement and distribution. In order to restore confidence on the part of the general public and the trading classes, the Government sought the assistance of His Majesty's Government for securing imports of wheat and also withdrew on January 25, 1943 the statutory maximum price for wheat. Secondly, in order to eliminate competitive buying of foodgrains for export purposes which would inevitably have the effect of raising their prices, the Government appointed purchasing agencies which were to work under the direct control of Provincial and State Governments. This was a step in the right direction since the presence in the market of a number of big purchasers operating in the same area would necessarily have the effect of raising the price level. Thirdly, the export of surplus of each area was kept wholly under the control of the Government and was

reserved exclusively for the purpose of mitigating shortage in deficit areas. Thus the Government of India, while abandoning the method of statutory maximum prices which had failed to bring down the actual market price, changed its tactics and adopted various indirect methods for influencing prices much more effectively than was possible under the older method. Since the actual over-all shortage was largely accentuated by hoarding, both precautionary and speculative, the Government undertook extensive propaganda work in order to apprise the general public of the true facts of the food situation which were often grossly distorted by all sorts of rumours. It was hoped that panicky hoarding would gradually come to an end as a result of this propaganda. Speculative hoarding was sought to be prevented by the threat of severe punishment to be meted out to all hoarders, a punishment which might even take the shape of complete confiscation of stocks. The removal of price control was so timed that, in view of the promising prospects of the new crop and the impending arrival of import of wheat from abroad, prices should have settled in due course at a reasonable level. In order to increase the food supply in the country and to make the country much more self-sufficient in regard to its food requirements, the "Grow More Food campaign" was also prosecuted with increasing vigour. The primary producer was also given an assurance that he had nothing to fear either from the Government monopoly of purchase and export or from the effect of increased food production in the shape of a decline of price to unremunerative levels. It was clearly stated that the Government control of export of foodgrains did not mean that they would use their position to force down prices to the lowest possible level. The cultivator was also assured that, if during the war and one year thereafter the prices of foodgrains tended to fall below a level which would give a reasonable return to the cultivators, the Government of India would be prepared to intervene and buy at fair prices all foodgrains offered to them in the open market. The Government also recommended the introduction of food rationing in big urban areas in order to prevent such places from becoming an almost

bottomless pit for foodgrains and also in order to check excessive demand.

The next landmark in the Government of India's food policy was the publication of a report of the Foodgrains Policy Committee, popularly known as the Gregory Committee, for the consideration of which the Fourth All India Food Conference met on October 13, 1943. Sir J. P. Srivastava, the then Food Member, made in that Conference three announcements of policy in accordance with the recommendations of the Gregory Committee. The first was that the Government accepted the recommendation that India must cease to be a net exporter of foodgrains. This measure was necessary in view of the position of over-all shortage of foodgrains in India. The second was that the Government would make every effort to secure sufficient imports of foodgrains from abroad for the purpose of making good India's accumulated deficit of $1\frac{1}{2}$ million tons as well as for the purpose of building up a Central Foodgrains Reserve of 500,000 tons. This central reserve, it may be noted, was to be utilised for the purpose of meeting any local deficits occurring in any part of India. The third point was the declaration that the Government wanted to associate public opinion with the work of the Food Department. Thus, it was proposed to set up at the centre, in an advisory capacity, a body representative of all important elements. The Government also accepted the recommendations of the Gregory Committee regarding the introduction of rationing in all important urban areas as well as the suggestions offered by the Committee for proceeding in a more business-like fashion with the revised basic plan. The question of price control was raised for discussion on the third day's meeting of the Fourth All India Food Conference. With the exception of the Punjab, the representatives of all the different Provincial Governments unanimously favoured the institution of statutory price control in respect of foodgrains in accordance with the recommendation of the Gregory Committee. Sir Ramaswamy Mudaliar, who presided over this Conference, while accepting the recommendation of the Conference that statutory price control was to be instituted for all major

foodgrains in all provinces and that a similar control was to be imposed in respect of an increasing number of non-agricultural commodities which were necessary to the cultivator, however, expressed the opinion that, in the then prevailing conditions, all-India statutory prices for all foodgrains were an impossibility. The Government considered that this would become possible "by building up price control, first on a provincial basis, then on a regional basis, and as efficient distribution arrangements supported by import from abroad enabled the Government to regain control of all stocks or sufficient stocks to influence the markets".* Pending the enforcement of statutory control of prices throughout India, such Provinces as desired to enforce statutory control of ceiling prices would be permitted to do so. Special forms of price control designed by a descending scale to reduce prices, such as were then prevalent in certain provinces, might be a necessity in the prevailing emergency condition, but they did not represent the Government of India's ultimate conception of statutory price control which was a price fixed for a crop throughout a particular crop season. It was also declared that prices were to be fixed on the basis of a fair return to the cultivator. The Government also agreed that statutory prices for foodgrains must be fixed with due regard to variations in other commodity prices. Again, since the function of the centre was to co-ordinate statutory prices throughout India with a view to the building up of an all-India price control, statutory prices could not be fixed without the consent of the Central Government, and the centre, moreover, would have the right to suggest changes in prices, both upward and downward. The Government also accepted the recommendation for the setting up of a small Standing Prices Committee at the centre to which disputes relating to price changes which might arise between the provinces and States and the Central Government might be referred for adjudication.

On October 5, 1943, the Government of India wrote to the Provincial Governments that, pending enforcement of statutory control of prices throughout India, provinces

*Indian Information, Nov. 1, 1943.

desiring enforcement of such control might proceed, subject to approval by the Central Government, with their price control measures. The Regional Food Commissioners, it was stated, could fulfil the functions of the Central Government and all price control measures were to be examined or discussed on a regional basis in close consultation with the Regional Food Commissioner. This address was followed up by a letter to Governments in the Eastern Region stating that the Government of India considered it highly desirable that they should in consultation with each other arrange that statutory maximum prices fixed for rice and paddy in their areas should be in parity with each other by the middle of January 1944.

In 1944 statutory price control was instituted for wheat, gram, barley, bajra, jowar and maize on an all-India basis. The statutory maximum prices for wheat, bajra and jowar were fixed at Rs. 9-8-0, 7-8-0 and Rs. 7/- per maund respectively. No all-India statutory maximum price was fixed for rice on account of different conditions prevailing in different rice-growing areas. The Provincial Governments themselves, however, imposed statutory maximum prices for rice and steadily brought them down. The Government of India also set up a price advisory committee consisting of experts who have been constantly bringing the level of prices of different foodgrains under their review.

As result of all these measures the prices of foodgrains were appreciably brought under control in 1944 and 1945. Provincial disparities in prices were progressively lessened as, thanks to the progressive improvement of the procurement and the distribution arrangements, it became much more easy to transfer foodgrains from surplus to deficit areas than it ever had been in 1943. In order to facilitate transport, a Movement Directorate was set up within the War Transport Department. Lack of storage facility often acted as a serious impediment to the movement of foodgrains. Accordingly, a Storage Directorate was set up at the centre entrusted with the task of providing India with first-class go-downs. The intransigence of different Provincial Governments which was largely res-

ponsible for the failure of the earlier basic plans was also overcome as the result of a very strong attitude displayed by the Central Government under the leadership of Lord Wavell. It was openly declared that food was an all-India subject and that surplus provinces had no right to enjoy their surpluses of foodgrains as long as there was any shortage in deficit areas. The Food Department also set up a body of experts for devising ways and means for minimising losses due to bad storage and the depredation of animals which have been estimated at nearly 3.5 million tons per annum. Thus a sincere attempt had been made to utilise the available food resources of the country to the best possible advantage and to distribute the over-all shortage evenly between different areas.

The problem of price control in Bengal which baffled all solution in 1943 considerably eased down in 1944. The major factor responsible for this easing down of the situation was the introduction of rationing in foodgrains in Greater Calcutta early in 1944 and the undertaking by the Central Government to feed Calcutta with foodgrains imported from outside Bengal for one year. We have already seen that the key to the problem of price control in Bengal lay in breaking the Calcutta market. With the introduction of rationing, the market in rice in Calcutta was literally destroyed, and since the Central Government undertook to supply all the food requirements of Greater Calcutta there was a notable fall in the demand for Bengal rice. This factor, in conjunction with a bumper harvest in 1944, made the task of the price controlling authorities in Bengal infinitely easier.

The maximum wholesale prices of rice and paddy have been changed from time to time by the Bengal Government under the Bengal Foodgrains Price Control Order 1943. The maximum prices have also varied from district to district according to their different supply position. The maximum prices have also varied for traders, rice mills and agriculturists. Towards the close of 1945, the actual price at which transaction took place was often much below the statutory maximum price. In November 1945, for example, the level of wholesale prices of rice once came down to

as low a figure as Rs. 7/- per maund in a deficit district like Comilla, to Rs. 10/- to Rs. 12/- per maund in the heavily deficit district of Chittagong, while in Dacca and Barisal, it stood at Rs. 9-8-0 and Rs. 10-8-0 per maund respectively. This drastic decline in price which was responsible for a clamour for the fixation of a minimum price was due not only to a bumper harvest but also to the Government's policy of monopoly procurement. Cordons have been drawn round different districts and in each district a single agent is appointed for the purpose of purchasing rice and paddy. Thus, restriction of movement, taken in conjunction with the elimination of competitive buying, has helped much to bring down prices from the giddy heights reached in the famine year 1943.

While 1944 and 1945 witnessed a more or less successful grappling with the all-important problem of price control in respect of foodgrains, the outlook in the present year is distinctly gloomy. India to-day is faced with an over-all food shortage which, it has been officially stated, is 10 times more serious than the deficit which India faced in 1943. The shadow of a famine, which is nature-made rather than man-made (since there has been a serious failure of harvests in South India due to lack of rains and other natural calamities) is already causing the price of foodgrains to shoot up like rockets in the deficit areas. It is difficult to think how the Government will succeed in stopping this spiral movement of food prices unless it succeeds in importing adequate quantities of foodgrains to fill up India's deficit, a difficult task in view of the over-all world shortage of foodgrains and the not very sympatetic attitude of The United Nations Food Board at Washington. After all, it must be remembered that successful price control depends upon the possibility of maintaining some sort of equilibrium between supply and demand. No amount of jugglery can make price control effective in a market in which that equilibrium has been rudely disturbed and cannot be restored due to lack of supplies. The Government, no doubt, is trying its utmost to minimise the gap both by a policy of extention of rationing to wider areas including the smaller towns

and even rural areas in deficit districts as well as by reducing drastically the ration scale but all these are mere palliatives and can hardly influence a market suffering from a very big gap betwen supply and demand.

At the present moment, the price of rice is much higher than the controlled price in many districts in Bengal, particulary in East Bengal where the Aus crop has been a failure. Huge black markets have come into existence. The Government of Bengal is unable to cope with the situation because it does not possess sufficient stocks both for the purpose of fulfilling its rationing obligations and for feeding deficit pockets in deficit areas which offers the best remedy against black markets. This sudden rise in the price of rice is due to a variety of factors :

(1) Over-all shortage in Bengal, officially estimated at 7,50,000 tons (though trade estimate puts it at, at least, 1 million tons) ;

(2) Public knowledge of over-all all-India and global deficit (which precludes all hope of securing imports from outside in order to make good the local defict) ;

(3) Speculative and panicky hoarding rendred possible by the Government's lack of effective control over the entire provincial supply (the Government has hardly succeeded in securing some 1/7th to 1/8th of the estimated marketable surplus in the Province) ;

(4) Corruption among Government officers who often wink at black markets or connive at inter-district movements of food grains in contravention of existing cordon regulations.

Official spokesmen of the Bengal Government are no doubt displaying a good deal of optimism. They point to certain favourable factors compared to 1943, namely the existence of an efficient procurement and distribution machinery, of a Government stock of 350,000 tons which is available for meeting local shortages and to the smallness of the over-all Provincial deficit which may be over-come by some economies in consumption, but these assurances are are not very convincing to persons who received similar assurances in 1943.

Before concluding this chapter a few general remarks may be made regarding the various experiments with price control in respect of food-grains which we have just described. The first thing to note is the absolute failure of all initial efforts which took the form of setting up price ceilings. In the first place, the Government simply declared a statutory maximum price with the hope that the market price would automatically conform to the official fixed price. But this hope was never fulfilled. The only outcome of the declaration of a statutory ceiling price, unsupported by measures aimed at controlling supply and demand, was a complete disappearance of the entire stock into the black market which caused not a little sufferings and inconvenience to the ordinary public. The Government took a painfully long time to discover the simple truth that in a period of acute over-all shortage and of general uncertainty, price control could hardly become effective unless there was an absolute control over supplies as well as control over demand. None of these two essential pre-requisites to price control, however, could be easily fulfilled in a vast sub-continent like India with myriads of scattered dealers and with a very vast consuming public, some of whom had, for the first time, sufficient purchasing power to consume as much as they liked. The task of price control was also rendered extremely difficult by the lack of popular support for the Government and by the hostile attitude adopted by the trading community and, not the least, by the utter corruption which prevailed in the Departments of Civil Supplies. The enterprise of price control became virtually a battle of wits between a not very efficient and a not very honest bureaucratic administration and a very clever business community bent upon inventing devious means for circumventing Governmental control measures. Thus the conditions which accounted for the successful operation of price control in the U.K.,—namely, the existence of an administration broad-based on public support, the prevalence of the spirit of a close co-operation between the administration and the business community, and the

intimate association of the general public with the Food Administration,—were largely conspicuous by their absence in India. Moreover, experience has proved that price control is more easily administered if the number of dealers is small rather than large, and if the commodity, the price of which is sought to be controlled, is largely derived from imports from outside. In India, the Government had to deal with a bewildering multiplicity of dealers as well as with commodities which are largely produced at home. Complaints have also been voiced to the effect that the so-called controlled maximum price has been almost thrice as high as the pre-war price. This complaint, however, does not seem to be justified. There is a strict limit to the extent to which prices of foodgrains could be legitimately reduced in a period of general all-round inflation. It would be manifestly unfair to the cultivators to bring down agricultural prices disproportionately without being able to bring about a corresponding reduction in the prices of commodities which the ryot has to purchase, either for purposes of cultivation or for his own needs.* Another consideration which set a limit to the extent to which agricultural prices could be reduced was the urgent necessity of providing an incentive to the producers. The Government had to aim at some sort of compromise between the interests of consumers and those of producers in the fixation of statutory maximum prices. The prevalence of different conditions in different areas was also responsible for the lack of an all-India statutory price for a primary food commodity like rice.

Complaints have also been made that in pursuit of the policy of monopoly procurement purchasing agents appointed by the Government often exploited the helplessness of the ryot and purchased foodgrains from him at very low prices. This complaint became all the more loud when it was found that the controlled retail price at which people in the rationed areas got their supplies of foodgrains continued to rule high even though the

* Vide the speech of Sir J. P Srivastava in Legislative Assembly Debates (official Report) 28th Feb. 1945.

price at which the Government made its purchases became steadily lower. These charges of profiteering at the expense of both the ryot and the consumer have been frequently hurled against the Government. The official explanation* for this discrepancy between the selling price and the purchase price is that the Government charges a 'pool' price which is necessarily based on the average of all purchase prices. This explanation, however, can only be partially correct since it may be presumed that the Governmental retail selling price also covers losses due to wastage of foodgrains, the extent of which must have been considerable even though no official statistics are available.

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* Vide the Proceedings of the Bengal Legislative Assembly (Budget Section) 1944.

CHAPTER III.

PRICE CONTROL MEASURES IN RESPECT OF COMMODITIES IN GENERAL.

In the previous Chapter we traced the evolution of price control in India with special reference to the prices of the principal foodgrains. It was not food price alone, however, which soared up to giddy heights and thus caused untold hardships to the ordinary consumers. The inflationary spiral in which the entire Indian economy was caught since the second half of 1942 affected powerfully, though not in equal proportions, the prices of all sorts of commodities, particularly those which were in great military demand. The Calcutta Index Number for all commodities which stood at 250 in January 1943 (base : July 1940=100) rose to 315 in May 1943. The General Index Number of wholesale prices (compiled by the office of the Economic Adviser to the Government of India ; (base : week-ended August 19, 1939=100) which stood at 101.1 for the week ended September 2, 1939 rose to 240.9 during the week ended July 31, 1943. The prices of many essential daily necessaries of life often shot up to five or six times their pre-war levels. The need was accordingly felt for holding such rises in prices under leash as well as for bringing them down as far as possible in the interest of the ordinary consumer whose income did not rise in proportion to the general rise in prices. In order to carry out this essential task, a new Department of Civil Supplies and

Industries was created by the Central Government early in 1943, though the task of price control was shared, to a greater or less extent, by other Departments as well. The first big task which engaged the attention of this new Department was the cloth crisis which was now just beginning to raise its ugly head, but the Department of Civil Supplies had also to grapple with the problem of price control in respect of quite a large variety of other essential commodities as well. It is hardly possible for us to deal in detail with all the bewildering variety of control measures which have been passed from time to time by the Government of India under the Defence of India Rules. Our present study, therefore, will confine itself to an analysis of the control measures applied to some representative essential goods only.

Cloth :—Next to food, cloth caused and is still causing the greatest anxiety to the Indian public. Cloth prices began to soar from 1942 onwards, and by 1943 they were so very high that they were practically beyond the reach of the poor and middle-class consumers. Accordingly, the necessity was felt for controlling cloth prices. The principal basis of cloth control in India has been provided by the Cotton Cloth and Yarn (Control) Order 1943. The order is a comprehensive one covering the constitution of a controlling body known as the Textile Commissioner for India, and the steps to be taken for the purpose of bringing out the hoarded cloth in India and also for ensuring an orderly and regular flow of cloth to consumers all over India.

Under this Order, a Textile Control Board consisting of 25 members, representing the interests of the Industry labour and consumers, has been created. The Textile Board has formed a Committee from among its members which is to deal exclusively with technical matters, and in particular, with matters relating to the fixation of prices, increase in production, standardisation and rationalisation. The members, are exclusively recruited from the representatives of the textile industry. A Committee of the Board may, by resolution, form, from among its members, a standing Sub-Committee to exercise on its behalf such of its functions as may be specified in the resolution. The members of such a standing Sub-Committee or Standing Committee may tender advice, through the Textile Commssioner, to the Central Government on matters connected with the purposes of the Order. If, however, the Textile Commissioner is unable to recommend to the Central Government to accept the advice so tendered, he shall refer the matter back to the Committee or Sub-Committee, as the case may be, for further consideration. If, after such reference, the Textile Commissioner is still unable to recommend to the Central Government to accept any advice so tendered by the Board or any Committee or any standing Sub-Committee, he may refer the question to the decision of the Central Government. The Textile Commissioner may also refer any matter, on which he desires advice, to the Chairman of the Board who shall refer the same to the Board or to the appropriate Committee or standing Sub-Committee. In such cases, too, in the event of any disagreement between the Textile Commi-

ssioner and the Board, the whole matter is to be referred to the Central Government for decision.

So much about the composition of the Textile Control Board.

The very first act of the Government in the direction of an effective price control in respect of cloth was to adopt measures for unearthing all the existing stocks of cloth and yarn in the hands of dealers and manufacturers who were required to declare their stocks of yarn and cloth held as on 31st. July 1943, by 15th August 1943. It was further laid down that,

(1) No cloth or yarn manufactured before 1st August 1943 shall remain in full bales after 31st August 1943 ;

(2) All such cloth and yarn shall be finally disposed of by retail sale not later than 31st October 1943 (this time-limit was subsequently extended to 31st. December 1943) with the object of ensuring that future manufactures do not go into hoards but freely move into consumption ;

(3) It was further laid down that after 31st July 1943 all cloth and yarn produced by a manufacturer shall be marked by him with the date of packing in the manner specified by the Government ;

(4) All cloth and yarn so marked shall be finally disposed of by retail sales within six months of the date of packing ; and

(5) No manufacturer can at any time hold stocks of cloth which exceed the total quantity manufactured by him during the preceding three months.

The above measures succeeded in bringing down wholesale prices of cloth to some extent.

At first, it was hoped that the prices of cloth would

automatically come down as a result of the application of the above provisions relating to hoarding and unearthing of all hoarded stocks. But this hope was not fulfilled. It was then realised that profiteering could be checked only if ceiling prices were fixed and stamped on cloth and yarn in order to check evasion by dealers, but this policy was carried out in two stages. In the first stage theTextile Commissioner set up ceiling prices—ex-mill as well as retail—for 12 standard varieties of cloth, and four varieties of yarn, and dealers were asked to sell their stocks of cloth of other varieties on this basis. This was done in August 1943 As the results, however, were not quite satisfactory, it was decided to fix the prices of all varieties of cloth and yarn, This was, indeed, a colossal task, as it involved the fixing of ex-mill and retail selling prices for more than 3000 varieties. But this task was also done and an Order was passed by the Texile Commissioner which made it compulsory on the part of every mill-owner not to release any cloth or yarn without putting the date and price markings on it.

Another device which was simultaneously adopted was the launching of the "standard cloth" scheme on the lines of the British utility cloth programme. Standard cloth was produced in 66 types of shirtings, dhoties, and sarees. It was sold at a uniform price all over India. Since the cloth was produced under controlled conditions, its manufacturing costs could be ascertained without much difficulty. The retail selling prices were arrived at by adding 6¼% to its ex-mill price. Every province or State received standard cloth at Railway centres indicated by it at a uniform price

equal to ex-mill price plus $1\frac{3}{4}\%$. To this $4\frac{1}{2}\%$ could be added for arriving at the retail selling price. The Government proposed to produce 2000 million yards of standard cloth within the first twelve-month period. The standard cloth scheme, however, failed to fulfil the hope which was originally placed in it. It appears that the design, width and other features calculated to maximise economies in manufacture made the standard cloth much too dull and unattractive even for the ordinary consumer.

The problem of price control in respect to cloth has by no means been an easy problem. The first task which the Textile Control Board had to face was to find out appropriate levels at which the prices of different varieties of cloth might be legitimately fixed. Generally speaking, the control price of cloth and yarn has been arrived at in the following manner :—

At first, the manufacturing cost of every mill is determined. Since there are both efficient and inefficient factories, the manufacturing costs have naturally varied from factory to factory. In order to give sufficient attraction to the marginal producer, the maximum price has often been determined with reference to the cost of manufacture of the marginal producer. Thus the method of *bulk-line* price-fixing has generally been adopted, though the method of differential price-fixing has also been followed in some cases, different maxima being laid down for different cotton mills.

Since the price of the finished goods depends upon the prices of the factors of production, the Textile Control Board had to devote some attention to this aspect of the question as well. Broadly speaking,

the main elements of the cost of production of cloth are :—

(1) wages ; (2) price of raw-materials ; and (3) the prices of stores, machinery etc.

So far as the first element was concerned, the Government could not take any effective measure for preventing a continual upward movement of wages which was inevitable in a period of rapidly increasing cost of living, but the Government was somewhat more successful in freezing the prices of the other two factors referred to above. In the first place, the Government tried to control speculation in raw cotton. For some time, futures trading in cotton was completely prohibited. Later on, however, some relaxation was made and forward trading in cotton was re-opened subject, however, to maximum-minimum regulations. The Government of India fixed Rs. 550/- as the statutory ceiling price for cotton in terms of the Indian Cotton Contract. This was necessary in the interest of price control of cotton manufactures. At the same time, the floor price was fixed at Rs. 400/- in the interest of growers. It may be incidentally noted here that the price of raw cotton slumped heavily during the first phase of the war owing to the loss of export markets. It rose to giddy heights only when the Indian Textile Industry came to be flooded with war orders creating an unprecedentedly high demand for Indian raw cotton in the home market. The Government also laid down ceiling prices for bobbins and imported shuttles in order to keep down the price of essential mill-stores. Thus the factor-price-freezing method was combined with bulk-line price fixing or differential price fixing.

In spite of all the measures referred to above, however, the cloth problem remained as acute as ever. The country was faced with a cloth famine of an increasing intensity and huge black markets in cloth became almost the order of the day everywhere in India, and not the least in the main manufacturing centres. We have stated elsewhere that price control can hardly become effective unless there is a complete control over both supply and demand. In the face of an over-all acute shortage in supply, the only way left open was the establishment of a universal system of rationing, but that was a stupendous task and an almost impossible one for the highly understaffed administrative systems in India. The other course was to expand production. But here, too, coal, machinery and personnel were the limiting factors. No new cotton mills could be started for lack of machinery and technical personnel, while even the existing mills could not work to their full capacity for lack of fuel. It was a particularly distressful sight to see cotton mills, like the Dhakeswari Cotton Mills of Dacca, standing idle for lack of coal, while the country was under the shadow of a forced semi-nudity. While periodical shortages of coal were responsible for stoppage of work in cotton mills (this coal shortage being primarily due to transport difficulties) lack of yarn was also responsible for the compulsory idleness of innumerable cotton weavers throughout India, and in Bengal in particular. Thus the hand-loom industry was not allowed to play its legitimate part in fighting the cloth crisis because of the Government's failure to produce and distribute yarn adequately.

Division of responsibility between the Central and the Provincial Governments was also largely responsible for the ineffectiveness of cloth control measures. The Textile Commissioner was responsible for the distribution of cloth from the mills to the Provinces and States, while internal distribution within the Provinces or States concerned remained a primary responsibility of the local Governments. India has been divided into different zones or geographical areas for the purpose of cloth distribution and it is the duty of the Textile Commissioner to allot cloth quotas to different zones and to see that the quotas allotted actually reached their respective destinations. The quotas fixed for each Province per head are as follows :—*

Name of zone.	Allocation per head.
Bombay Surplus Area (including W. I. States).	18 Yards
Sind Deficit Zone-Sind	12 ,,
Baluchistan	24 ,,
Punjab Defict Zone (including Delhi)	18 ,,
U. P. Deficit Zone	10 ,,
Bihar Deficit Zone	10 ,,
Bengal Deficit Zone	10 ,,
Bengal	10 ,,
Assam	10 ,,
Orissa Deficit Zone	10 ,,
C. P. Deficit Zone	12 ,,
South Deficit Zone	10 ,,
Rajputana Deficit Zone	12 ,,

Provincial quotas were fixed on the basis of pre-war consumption of cloth in different Provinces. It is, of

* Vide the proceedings of the Indian Legislative Assembly on 14. 2. 45

course, admitted that reliable statistics regarding pre-war consumption are not available. Sir A. Haque claimed to have derived his figures from the Fact Finding Commission Report which had been appointed by the Government of India. According to the findings of that Commission, the rate of pre-war consumption of cloth was 30 Yards in Bombay and the Punjab, 25 Yards in Sind and 10 to 12 Yards elsewhere. In the fixation of Provincial quotas, it was officially claimed, the main cuts were made in Bombay, Sind and the Punjab whose consumption before the war was highest, since it was felt that it was much easier for Bombay and the Punjab to accept a 40% cut from 30 yards than for Bengal to accept any cut at all from 10 yards.

The allotment of mill-made cloth to different zones also took into consideration the local product of both mill-made cloth and handloom cloth. The idea was that the per head quota was to be made good out of both local production and imports from the rest of India.

Since price control depends upon the adequacy of supply, the low quotas allotted to Provinces like Bengal were naturally not calculated to ease the Price Controller's job. Thus the failure of price control measures in respect to cloth has been largely due to inadequate production of civilian clothes, the effect of which has been all the more disastrous in view of the increased purchasing power in the hands of the masses and the consequent increased demand for finer cloth and more cloth. The Bombay Mill-Owners' Association has claimed that Cotton Mills have been making enough cloth for essential civil needs. The purpose of this claim was to foist the responsibility for the cloth famine on the shoulders of the Government. But this claim can hardly

be sustained. It may be true that India's Cotton Textile Industry produces per year nearly one-fourteenth of the total world production of cloth and 13% of the world production of yarn. It may also be correct to say that the production of cloth by the Textile Industry including hand-loom production comes to 94% of the pre-war cloth supplies in India, but this is not the full story. The Indian production of cloth also includes considerable quantities of varieties like canvas, newar, tentage cloth, bandage cloth, gauge etc., which cannot really be used for the purpose of clothing. Moreover, until recently quite a large percentage of indigenous cloth production was appropriated by the various Defence Services. Thre have also been considerable exports of cloth. After deducting, from the total production of cloth, supplies to the Army, the cltoh exported, and the varieties that cannot be used for clothlng purposes, the total cloth available for civilian consumption, including hand-loom production, came to 12 yards per capital during 1943-44 as against 15·8 yards per capita before the war. This shows that the total quantity of cloth available for civilian consumption is 75% of the pre-war consumtpion. Moreover, hand-loom cloth is not subject to the Cloth Control Order. Thus the total supply of cloth over which the Government had effective control has been woefully inadequate. In this connection it may however be mentioned that at the present moment the supply of civilian cloth is somewhat larger than in previous war years on account of an appreciable decline in the cloth requirements of the Defence Services as well as reduction in the volume of exports.

Black marketing in cloth, it has been officially

asserted*, is everywhere primarily responsibility of the wholesale dealers. There has been very little black marketing by the mills, although there has been a considerable amount of it by the retailer. The latter has often been forced to resort to the black market because of the high prices charged by wholesale dealers who have often taken away the entire 20% of profits intended for the entire chain of distribution. The retail dealers and the consumers were thus left to the mercy of wholesale dealers. In order to stop this mischief, the Government allocated the profit margin amongst different types of distributors in the following manner :—

3% for the mill distributor,
8½% for the metropolitan wholesale dealers, and
8½% for the village retailer.

The Textile Control Board also recommended a complete over-hauling of the system of provincial distribution for checking black markets. It was suggested that the great wholesale centres should be cut out and that the provincial and State Governments should nominate, in consultation with dealers themselves, dealers who would make direct purchase in the producing centres and would be responsible for local distribution to the retailers. Since the process involves a drastic curtailment of the number of distributors and the licensing of provincial dealers, it would be possible for the Provincial Government and the District Authority to keep an exact check on every bale coming into the district. It would also save a considerable amount of transport and handling. This new policy of internal distribution would, of course,

*Vide the speech of Sir A. Huque in the Indian Legislative Assembly on 14th, Feb. 1945.

result in closing some of the normal channels of trade, but then the Government, it was stated, was forced to take this extreme measure on account of the failure, after repeated warnings, of the business community to play the game in a scheme of controlled economy.

Following the adoption of this new policy of distribution, the Government of Bengal appointed four handling agents who have been entrusted with the task of distributing cloth in Bengal. These Handling Agents have been given a commission of 2½%. This new scheme of provincial distribution has been severely criticised in Bengal. The appointment of the handling agents, it has been asserted by the Marwari Chamber of Commerce has been very unfair to commission agents. The commission agents were required to dispose of their goods at the rate of 3% over ex-mill prices (by quota holders of all outside mills) and at 7% (by importers of outside mills). These terms, it has been stated, would involve commission agents in heavy losses.

In spite of all these measures, however, black markets in cloth are still reigning outside the rationed areas. Mill-made cloth of good quality has almost become a thing of cherished memory and even in the rationed areas the cloth that is usually supplied on the production of Ration Cards is hardly fit for use by the ordinary middle class consumer.

Price control in respect of cloth also embraces imported cloth. It has been laid down that importers' price of any foreign cloth shall be its landed cost plus 10% thereof. The dealers' price of any foreign cloth shall be the importers' price plus 20% thereof. The dealers' price for any foreign yarn shall be its importers' price plus 15% thereof. The landed cost of any foreign

cloth or foreign yarn shall be determined or certified by the Controller of the Province of Import in accordance with the following provisions :—

The landed cost of any such cloth or yarn shall ordinarily represent the cost thereof to the importer, namely, the price charged by the exporter in the country of origin plus freight, marine and war risk Insurance charges and other charges incurred in respect of such cloth or yarn upto delivery on transit sheds at the Port of entry plus Customs Duty. In case of huge disparity in the figure thus arrived at and the ceiling price of indigenous manufacture, the Controller may take such disparity into account and fix landed cost at such higher or lower figure as may appear to him fair. The Controller may, if he considers it necessary, consult an import price committee which the Provincial Government may appoint and make such enquiry as he thinks fit in order to determine the landed cost.

In order to ensure that the consumer gets the benefit of the control price, clause 12 of the Cloth Cotton and Yarn Order of 1943 provides that no manufacturer or dealer shall sell or offer to sell any cloth or yarn at a price higher than the maximum price, that every sale of cloth or yarn by a dealer except to a consumer shall be at a price either f. o. r. station of despatch or ex-godown of storage, at the buyers' option. Section 3 of clause 12 provides that a dealer shall not buy or sell, except to a consumer, cloth or yarn at a price, either ex-any godown of storage or f. o. r. any station of despatch (being a go-down or station within 100 miles of the manufacturer's premises) w ich exceeds by more than

4% (in case of cloth) and 3% (in case of yarn) the ex-mill maximum price or ex-mill contract price, whichever is less. Again, every dealer shall exhibit in his premises a true copy of each of the Notifications that may have been or may hereafter be issued by a Textile Commissioner specifying the maximum price at which cloth or yarn may be sold. Section 6 provides that no manufacturer or dealer shall, without sufficient cause, refuse to sell cloth or yarn to any person. It may be noted in this connection that with the introduction of cloth rationing, either formal or informal, the dealer has lost a good deal of his power to sell cloth, except against coupons or permits.

Price control measures in respect of cloth have also suffered from limitations imposed on the scope of such measures. For example, the Cloth Control Order does not apply to hand-made cloth or hand-spun yarn or to fents or to any other short piece of cloth exceeding 5 yards in length. Cloth meant for export is also exempted from the ceiling price imposed on cloth meant for the internal market. A higher control price has been set up in respect of cloth meant for export. This factor was responsible for a general tendency on the part of cotton mills to divert as much of the local production as possible to the export market, a tendency which had to be checked both by limiting the total export quota as well as by setting up a higher standard for cloth meant for export.

Successful price control of a commodity in short supply depends upon the existence of full control over both supply and demand. In the case of cloth that full control could

not be exercised because of the inability or unwillingness to include hand-made cloth within the scope of the Cloth Control Order. The supply position could also be improved by putting a complete ban on the export of cloth at a time when India was passing through a cloth famine. Unfortunately, strategic considerations, or considerations of Imperial foreign policy as well as considerations of the long-term interests of the cotton textile industry, apparently stood in the way of declaring an embargo on the export of cloth out of India. Very recently, the Government of India has also agreed to supply some quantities of cloth to Java with a view to securing some essential foodgrains by way of exchange. It is, however, gratifying to note that the export quota in respect of cloth has been reduced from 600 million yards to 400 million yards in view of the acute cloth situation in the country. The strain on the cloth position has also been somewhat relieved by a considerable reduction in the demand of the Army for Indian cloth. None the less, the cloth position in the country to-day still remains extremely acute except in areas where cloth rationing has been put into operation in a formal fashion. The ordinary citizen hardly gets any mill-cloth except at very long intervals. Even when mill-made cloth is available, its quality is generally so low that people belonging to the middle-classes almost find it impossible to use. Black-marketing in cloth still prevails on a very wide scale, though recently, as a result of numerous prosecutions and confiscations, some checks have been imposed on the impulse to sell cloth in the black market. The true solution of the problem

would lie in the enforcement of a system of universal rationing of cloth which, however, has not been done so far. In view of the extreme shortage of superior quality cloth, black market in cloth mostly concerned these higher qualities. Thus price control in respect of cloth has been only a very qualified success.

SUGAR: The Indian sugar industry was the first industry to come under complete State Control during this war. In the immediate pre-war period, the price of refined sugar was Rs. 11/- per maund. Since 1941 the price of sugar began to soar, particularly in the outlying provinces. Transport difficulty, together with increased demand for sugar from the Defence Services as well as from some foreign markets, was responsible for this rise in price. After the out-break of the Far Eastern War and the conquest of Java by the Japanese, the strain on Indian sugar industry increased enormously. India had to supply the sugar requirements not only of the home market but also of Afganisthan, Nepal, Bhutan, Tibet, Saudi Arabia, Persia, and other countries of the Near East. In order to stabilise the price of sugar, the Sugar Control Order was passed in April 1942. This Order extended to the whole of British India and aimed at control over the production, movement, distribution and the price of sugar throughout India, irrespective of the source of origin. Though India is the largest single producer of sugar in the world, factory sugar formed only one-fourth of the total sugar produced in the country. The rest of the sugar is in the shape of Gur. The normal price ratio between sugar and Gur was 1: 2. The cane-grower, therefore, secured a higher return by selling

the cane to the sugar factory rather than by converting it into gur. When the price of sugar was fixed in 1942, the old relationship between the price of sugar and that of Gur was violently disturbed. The Gur prices which were left uncontrolled rose in sympathy with the general rise in prices, thereby causing a diversion of cane from sugar to Gur production. On the other hand, the controlled price of sugar was responsible for an increased demand for sugar even from the poorer classes who had been formerly accustomed to the consumption of Gur. Thus a sort of double diversion took place: diversion of cane from sugar to gur production; and diversion of consumption from Gur to sugar. To cope with this difficulty, the Central Government passed a Gur Control Order with a view to ensuring :—

(a) an adequate supply of cane to sugar factories ;
(b) maximum production of Gur and Sugar ;
(c) Equilibrium between Gur and Sugar ;
(d) an equitable distribution of Gur in producing and consuming areas.

Price-control in respect of sugar thus illustrates the truth of the proposition that, in the case of related goods, price control cannot be effective if it is not comprehensive enough to include all the related commodities. There is an inter-relationship of prices between sugar, Gur, Sugarcane and other alternative crops. It may be noted in this connection that the price of sugarcane was fixed by the Governments of U. P. and Bihar, the two most important sugar producing areas in India, even before the war. With the general rise in prices of agricultural crops there was naturally a temptation on the part of the cane grower to

divert some of the cane lands to the production of other more lucrative crops the prices of which were left un-controlled or were fixed at higher levels. Thus the production of sugar suffered from the lack of adequate supplies of cane. Accordingly, it was necessary to make an upward revision of the price of sugarcane in order to maintain parity between sugarcane prices and the prices of alternative crops. This upgrading of cane price necessitated an upward revision of the price of manufactured sugar as well. It is for this reason that the controlled price of sugar is nearly 50% higher than its pre-war price.

The Sugar Control Order is generally claimed to be a great success. Under this Order, the entire out-put of sugar factories came under the strictest possible State control. There was no loophole for the factories to sell sugar in the black market. Enormous black markets, however, flourished for sometime on account of highly defective distributing arrangements. With the introduction of sugar rationing, the scope of black marketing in sugar was considerably reduced, at least in the rationed areas, though black markets still exist on account of the very low scale of sugar ration.

We have already seen that control had to be imposed in order to make sugar control effective. Under the Gur Control Order 1943, the maximum price of Gur in different areas and for different grades of Gur may be fixed by the Gur Controller for India by notification in the official Gazette. Free movement of Gur has also been suspended. The passing of the Gur Control Order had a very sobering effect on the price of Gur in different provinces and districts.

COAL :—Like the prices of other essential commodities, coal prices also shot up to meteoric heights during the war. Inadequate production, increased demand, mal-distribution due to transport difficulty, and profiteering on the part of dealers,—these are the principal causes of high coal prices. In order to cope with the situation, the Colliery Control Order 1944 was passed. Under this Order, a Coal Control Board was created representing the Colliery interests, consumers, trade and the Government. Clause 4, Section 1, of the Colliery Control Order empowers the Central Government to fix the price at which coal may be sold by colliery owners. Different prices may be fixed for different grades of coal and coke and for different localities. Thus the method of differential price fixing has been adopted. The middle-man's commission has also been fixed in order to make price control effective ; the Central Government has assumed complete control over the distribution of coal. Special arrangements have been made for giving Railway priorities to coal. In order to effect some economy in the use of coal, in view of the over-all coal shortage, some sort of coal rationing has been evolved for fixing up the quota of coal for different industries. An informal type of coal rationing has also been introduced in many places for the ordinary consumers.

Besides direct methods of price fixation, the Government also adopted various indirect measures for influencing the price of coal. In order to stimulate the maximum production of coal, the Government removed the old restrictions on the employment of women under-ground in coal mines and thereby violated India's obligations

under the Inter-national convention in respect of the employment of women underground. The colliery industry was also given a special inducement in the shape of a grant of bonus, free from E. P. T., for the production of coal in excess of the target figure fixed for different coal mines. The foodgrains ration of the coal mine worker was also liberally increased in order to induce a sufficient flow of labourers in coal mines. Special welfare arrangements for the Coal mine worker were also made with the same object in view. One of the principal causes of the shortage of colliery labour (which was also largely responsible for the reduced out-put of coal mines) was the superior attraction of work in military factories as well as in agricultural employment. The Government was thus forced to take measures for improving the amenities of life of coal mine workers. As the enforcement of these measures involves higher costs of production of coal, the price of coal is necessarily somewhat higher than the prewar price.

Consumer Goods: While specific control orders were passed in respect of food, cloth, sugar, coal, paper etc., the Government of India also felt the need for passing a general control order for regulating the price of a very wide variety of ordinary consumer goods. The inflationary spiral which developed from the second half of 1942 was responsible for a very steep rise of the price of ordinary consumer goods constituting the bare necessaries of life. In order to deal with this situation, the Hoarding and Profiteering Prevention Ordinance was passed in 1943. This Ordinance provides for a general control over all articles in respect of which no specific

control orders had been passed. This Ordinance prohibits the producer, the dealer and the consumer to possess more than a limited stock of specified items of consumer goods. Thus hoarding, which was a potent cause of the steep rise in prices of such commodities, has been sought to be checked under the threat of severe penalties to be meted out for non-compliance. In regard to prices, the Ordinance generally lays down that nothing is to be sold at a price exceeding 20% above the landed cost or the cost of production, as the case may be, of the commodity in question, subject to what is allowed by normal trade practices. To carry out the provisions of the Ordinance as well as to ensure uniformity of action in all Provinces, a suitable organisation with a Controller General of Civil Supplies as its head has been set up. A number of Advisory or Consultative Committees, representing consumers' and traders' interests, has also been set up to advise the Controller. A Central Consumers' Council has also been created for advising the Government in matters of special consumer's interests.

The Hoarding and Profiteering Prevention Ordinance is an omnibus Control Order which seeks to control the price of practically every consumer good from a pin to a motor-car. The scope of this Ordinance can well be gauged from the following extracts of a few of the numerous notifications which have been issued from time to time. A notification issued on December 4, 1943, specified the following articles as coming within the purview of the Ordinance in respect of limitation on quantities which can be possessed by any one : "Cigarettes ; foodstuffs, other than food grains, (including tinned

provisions ; bottled and infant foods) cooking fats; Ghee, Vegetable Ghee, Vegetable Oils ; (groundnut and cocoanut and otherwise) ; spices ; chillies ; tamarind, salt, tea, tobacco, wines, spirits and potato, liquors". Under a separate notification issued on November 27, 1943, all importers of a large variety of specified goods were required to give information to the Government regarding quantity expected to arrive during next six months ; names of wholesalers and retailers to whom the articles imported have been sold, landed cost, profit margin before the war in 1939 and profit margin now charged or claimed, giving reasons in support in case the margin exceeds 7½%. The articles affected by this notification were :—Bi-cycles, cycle parts, fountain pens, woollen cloth and garments, cutlery, razor blades, canned food-stuffs, Horlicks and other infant foods, boot polishes, motor spare parts etc.

The immediate effect of notifications issued under this Ordinance was the complete disappearance from the market of the goods concerned. Thus enormous black markets in consumer goods were practically created by the Ordinance. Thus once more it was proved that price control cannot be effective without control over supplies. Accordingly, the Government of India passed the consumer goods (Control of Distribution) Order 1944. Under this order, a Controller General of Civil Suplies was appointed for controlling the distribution of consumer goods, including both imported goods and goods locally manufactured. Importers and manufacturers of scheduled goods were required to give intimation of arrivals and production to the Controller

General. It was also laid down that distribution of such goods would take place through approved dealers. A consumers' Council was also created to advise the the Government in all matters of price control relating to consumer goods. Enquiry posts have also been created in the important consuming centres for receiving complaints from the public as well as for supplying all sorts of relevant information.

Under the Hoarding and Profiteering Ordinance it was laid down that the maximum retail selling price would not exceed the ex-factory price or the landed cost by more than 20%. This provision regarding selling prices of consumer goods came in for very severe criticisms from the business community. It was observed that uniform percentage of margin might lead to curious situations. Different stock-holders of the same commodity and in the same market, it was observed, might have acquired goods at different prices and in different periods. If, therefore, individual sale prices were to be determined by adding 20% to the actual cost of acquisition or production, varying selling prices for the same commodity and in the same market might easily result. Critics also observed that a uniform margin of 20% does not take into consideration various incidental charges or essential elements like publicity expenses which are unequally borne by traders in different items of consumer goods. More-over, if there was a chain of distributors in a particular line, how was the margin to be divided? As a result of these criticisms, the Controller General of Civil Supplies gave the assurance that the provision regarding price regulations would be adminis-

tered after close and detailed consultation with all the relevant interests and after a fair and full examination of all the issues involved. "Wherever the normal profit was in excess of 20% margin all that the trade has to do is to say so, to prove the fact by previous record, and ask for a figure which would in the existing circumstances be equivalent to the pre-war profit margin. All such cases would be sympathetically considered." But "Whatever the margin of profit agreed to, it will operate on the landed cost or cost of production and not on the individual cost of acquisition which can never be the basis of a controlled price policy".* To adopt any other basis for price fixation was to cut at the very root of price control.

Price control in respect of consumer goods has been only a qualified success. The Controller General of Civil Supplies in a Radio broabcast on June 13, 1944, claimed to have brought about an appreciable reduction in prices compared with the peak prices which prevailed before the passing of the Ordinance. It was claimed that the the average reduction in the prices of cycles and cycle parts has been 36%, in fountain pens 53%, in woollen goods 54%, in razor blades 55%, in cartridges 55% and in boot polishes 62%. On the whole, it was claimed that as a result of this Ordinance there has been a general scaling down of the prices of consumer goods. No doubt current prices were still far above the pre-war levels or above the increases which have been allowed to take place in countries like the U. K., Australia, Canada or South Africa. The delay in starting this anti-profiteering campaign was adduced

* Vide Legislative Assembly's debates on 10th. March 1945.

as one of the reasons for the relatively high level of the controlled prices. Besides, it would be futile to try to force the prices down too far or too fast until the supply position improves and until there is a corresponding fall in the cost of living all round.

It is difficult for us to share the optimism of the Controller-General of Civil Supplies regarding the success of the Hoarding and Profiteering Prevention Ordinance. For the ordinary consumer the only effect of the Ordinance was that he had to pay black market price if he was to secure his supplies of the consumer goods concerned. Even where distribution was sought to be regulated by some sort of permit system, it was extremely difficult to secure a permit except by unfair means, unless there was some sort of personal relationship between the Permit Officer and the individual concerned. Very often these permits could be purchased at some mutually agreed price. Thus the only effect of price control was to enrich the permit officer at the expense of both the consumer and the trader. The only class of consumers who apparently derived some benefits from this Ordinance was the privileged group of Government Officers who were entitled to purchase limited quantities of such goods from the Civil Grocery Shops which were specially created for this purpose. The ordinary non-official or the ordinary Government employee got very little benefit. Later on, however, with some improvement in the supply position, the Government set up a few "fair price" shops in metropolitan cities for the specific purpose of distributing selected consumer goods among the ordinary public. This step, taken in conjunction with a much livelier

activity on the part of the Enforcement Branch and some improvement in the supply position following the cessation of the war, has eased the situation to some extent, but even now black markets are prevalent on a very wide scale.

It is difficult to see what can be done for curbing such black markets in view of the impossibility, or at least the difficulty, of enforcing some sort of rationing system in respect of ordinary consumer goods. The ancient conspiracy of buyers with sellers is at work to defeat the object of the Price controller. The Government is no doubt trying to fight the black market in various ways. In the first place, the widest publicity is being given with the help of newspapers, radio broadcasts etc. to the maximum prices fixed by the Government and consumers are requested not to pay any higher price. Secondly, heavy and even deterrent punishments have often been meted out to many offenders. In a single month 217 cases were instituted under the Ordinance in the United Provinces alone, while in Bombay 35 prosecutions were sanctioned during a similar period. The offences were over-charging, refusal to sell, failure to issue a cash memo, or failure to exhibit price lists. Offenders were either heavily fined or sentenced to varying terms of imprisonment. A merchant in Ferozepur was sentenced to six months' rigorous imprisonment for selling a piece of leather at double the controlled price. A Delhi merchant was fined Rs. 1000/- for quoting an excessive price for a gramophone record, and also for refusing to sell it when a cash memo was demanded.

The Hoarding and Profiteering Prevention Ordinance

has had a vital part to play not only in the Government's endeavour for stabilising the cost of living Index number but also in ensuring the success of price control in respect of food grains. As Sir Azizul Huque observed, "If the millions of people are to get food grains at a price within their available income, the grower must get his consumer goods at a correspondingly cheap price. He cannot be expected to sell grain at a cheap rate, while prices of other commodities are abnormally high."

So far we have dealt with the Government's price control measures in respect of cloth, sugar, coal and consumer goods in general, but that is by no means the full story of the manifold experiments in direct price fixing which have have been launched by the Government of India or some of the Provincial Governments in the all-out campaign against commodity inflation. The Government tried to control the price of practically every conceivable type of finished goods and essential raw materials by exercising the wide power given to it under the Defence of India Rules. Thus specific price control measures were instituted for paper, steel, footware, drugs, brass utensils, bleaching powder and chlorine, drugs, starch, jute, wireless sets, machine tools, timber, Vanaspati ghee, salt, newspaper, news print and even second-hand motor Vehicles. The above list is illustrative rather than exhaustive. The general pattern of controlling methods employed was the institution of a strict licensing system, the setting up of maximum prices (with margins indicated for manufacturers or importers, whole-salers, exporters and retailers), coupled with control over consumption and production. Direct and indirect

methods of price fixation have been employed simultaneously, wherever possible.

Price control in respect of paper, for instance, which took the shape of direct price fixing for different types and sizes of paper was sought to be made effective through a reduction in civilian paper consumption by as much as 70% of the pre-war normal consumption standard. This was no doubt a very serious blow to publishers, authors and students but apparently there were no other means open to the Government if price control was to be made effective in a period of acute paper shortage. Price control in respect of steel was similarly enforced by means of a complete State regimentation of the Iron and Steel industry, including scrap metal. The entire out-put of the industry was practically requisitioned by the State and no private citizen was allowed to purchase the smallest quantity of steel product unless he could secure a purchase permit from the Steel Controller for India. The prices of different qualities and sizes of footware were sought to be controlled under the Footware Control Order 1944. Since it was impracticable to exercise that amount of control over the distribution of footware which was possible in the case of paper and steel, evasion was sought to be prevented by requiring that all footware shall have clearly impressed on the sole thereof :—

(a) the name of the brand,
(b) The size, and
(c) The maximum retail selling price

The provisions of this order, however, did not apply to

(a) Footware imported from outside India, and
(b) Footware made to specifications.

The Drugs Control Order was passed in 1943 in order to bring down the prices of essential common medicines, particularly imported medicines. Under this Order, the maximum prices of all essential drugs were laid down and dispensing shops were asked to exhibit a list of such scheduled prices in a prominent place within the shop f the guidance of the consumers. Unfortunately, however, 's order practically remained a dead letter. A familiar way in which control regulations were evaded was the pretence made by the dispensing shops of non-possession or non-availability of the required medicine. Besides, it was impossible to enforce price control in the cas f prescriptions which suddenly came into vogue at the expense of patent medicines.

Another highly important subject matter of price control was house-rent in congested urban areas. In most of the cities and big towns of India a serious house famine of varying degrees of intensity has developed during the last few years on account of the virtual cessation of private house—building activity and the growing stream of urban population, both military and civilian. The task of controlling house-rents was, however, undertaken by different Provincial Governments as well as by the Central Government within their respective jurisdictions. Under the Bengal Rent Control Act 1943, the maximum amount of increase in rent allowed was 10% of the rent prevailing in 1941. Thus, in regard to house-rent control, the "historical commodity price freeze method" was adopted, though with some modifi-

cation. The Rent Control Act came as a boon to the harassed tenants in big cities like Calcutta. The spirit of this Act, however, was often largely nullified through the practice of charging a high initial Salami for all new tenants, by the refusal of the house-owner to undertake essential repairs and by other mal-practices.

So far we have dwelt upon the direct methods of price fixing adopted by the Government. Where direct price fixing has not been found to be possible, the Government tried to influence prices by various indirect methods. The Government of Bengal declared two meatless days in the week under the Meat Control Order with a view to conserving supplies of fresh meat. The Government of Bombay prohibited the use of fresh milk by caterers and restaurants in the city of Bombay in order to make fresh milk available for children and other 'priority' consumers. The Government of India has also made special efforts for importing skimmed milk from abroad in order to offer a substitute for fresh milk to caterers. The Fishery Department of the Government of Bengal has tried to increase the supply of fish by supplying yarn (for weaving nets) to fishermen, by starting fish culture on its own account in neglected ponds and tanks as well as by making ice available to persons interested in the fishing trade. The Government of Bengal have also encouraged the "Grow more Vegetable" campaign in order to increase the production of fresh vegetables. Flower gardens and Tennis grounds in the compounds of high ranking Government officers have been converted into vegetable gardens with a view to setting an example to the ordinary citizens.

Since one of the most potent causes of the fantastic rise in the prices of perishable foods was the uncontrolled purchase of such articles by Military Contractors, the Government of India requested all Provincial Government on February 5, 1944, to set up Purchase Co-ordination Committees for each Army Command for the purchase of perishable foods in a regulated manner.

The Army also began to grow vegetables and start poultry farms on its own account with a view to reducing its demand on the market to the greatest possible extent.

The Government of India in its Food Department has also tried to give as much fillip as possible to the development of a food processing industry in the country with the immediate object of meeting the Army's food requirements to the maximum extent possible with the help of processed food stuffs which would necessarily have an indirect beneficial effect on the civilian supplies of fresh foods. | chief Technical Adviser wa appointed for the special purpose of investigating modern methods of food technology. A technical Panel was also created for rendering technical advice on the highest level available to the nascent food processing industries in the country.

CHAPTER IV.

GENERAL REVIEW OF PRICE CONTROL EXPERIMENTS IN INDIA.

In the last two chapters we discussed the specific control measures adopted by the Government of India for controlling the prices of various essential commodities. But the war against inflation in India was not fought on the commodity front alone. The Government of India, after denying for a long time that inflation had at all taken place, suddenly realised that India was in the vortex of a potentially galloping type of inflation, and from the middle of 1943 embarked upon a vigorous anti-inflation campaign and tried to mop off the surplus purchasing power created by huge Governmental war expenditure. Thus the drive against inflation was pursued simultaneously in the monetary and commodity fields. Governmental endeavo r, directed towards re-absorbing the excess purchasing power created in course of war finance, took the shape of increased taxation, both direct and indirect, an all-out borrowing programme and other novel anti-inflationary devices. Increased taxation took the shape of a very steep increase in the rates of surcharge of Income Tax, increased excise duty on sugar, the imposition of new excise duties on Vanaspati and tobacco (which was subsequently extended to tea and betel-nut), the increased E. P. T. (which was raised from 50 to 66.2/3 %) plus a compulsory deposit of an amount

equal to 1/5th of the Tax (subsequently raised to 13.1/3% of the total Excess profits) and increased import duties. In order to lessen the tim -interval between the actual accrual of the income and the payment of the tax, an Ordinance was passed in May 1943 introducing a system of summary assessment of E. P. T. which provided for the advance collection of revenue. As a result of these measures, about 93.1/3rd % of total business income came to be immobilised : E. P. T. took away 66.2/3 %, income Tax and Super-tax between them absorbed another 13.1/3 %, while another 13.1/3% was taken away through the compulsory deposit scheme, leaving only 6.2/3% for purposes of private use. The Government also restricted the amount of bonuses and commission which would be admissible for Income Tax purposes and the amount of stock which would be considered reasonable for purpose of assessment of tax liability. Hitherto, the distribution of bonuses often took place at the expense of the Exchequer. This possible big loophole in taxation was now covered. Again, manufacturers often held unduly large stocks of raw materials which gave them some advantage for purposes of computation of tax liability by increasing the amount of capital so i vested. This hoarding of stocks often caused s ortage and forced up the prices of these raw materials and stores. Under the new arrangement the encouragement given under the old tax system to the process of unnecessary accumulation of stocks was withdrawn. The Government of India also prohibited, under the Defence of India rules, the issue of new capital except with the prior consent, which was to be given only for essential purposes, of

the Central Government. This measure was necessary in order to prevent the general scramble for the very limited supplies of essential goods and services, including not only iron and steel and machines and mill stores but also skilled labour, which would inevitably result in a general raising of their prices. Other anti-inflationary measures of the Central Government include the imposition of a ban on forward contracts in cotton (which was later on partially removed under certain conditions), on futures trading in oil-seeds, and option dealings in bullion. Speculation in foodgrains was also sought to be controlled through the regulation of Bank Advances against specified foodgrains. An all-out borrowing programme was also launched throughout the length and breadth of the country. Different types of bonds calculated to attract both big and small investors were issued and Government officers were directed to exercise all their influence for making a success of the Government's loan programme. Appeals were made to the sense of loyalty as well as to the self-interest motive of different classes of investors, while some amount of compulsion was exercised by local officers for ensuring a success of the Government's various loan programmes. Appeal was even made to the investors' gambling instinct through the issue of tax-free prize bonds.

Although the Government tried to combat inflation on all fronts, the degree of success actually achieved has not been very encouraging. For a painfully long time, the only visible effect of price control measures was to make the controlled commodity suddenly invisible and to create nation-wide black markets. Thus in the first

round of the contest, the Price Controller was handsomely defeated by his opponent, the trader-profiteer. Indeed, the defeat in some cases was so outright and complete that even Government Agents were forced to pay black market prices for making urgent military purchases. It was not till direct measures of price control were supplemented by indirect measures of control over supply and demand that some tangible results were obtained. But, even then, the results achieved were negative rather than positive. The Government succeeded not so much in bringing down prices to levels which could be described as being in parity with the general level of wages and incomes, but only in checking the steep inflationary spiral which was almost threatening to overwhelm the entire socio-economic structure of the country. Thus, while Germany, U. K., Australia and the U. S. A. more or less succeeded in stabilising their respective cost of living index numbers throughout the duration, in India even the so-called controlled price remained nearly 250 to 300% higher than the prewar levels. If it is further remembered that price ceilings were imposed not before the lapse of painfully long periods during which there was no price control at all and the profiteer was allowed to mulct the consumer to his heart's content, and that, for a long period even after their imposition, 'controlled prices' meant for the ordinary consumer little more than mere paper regulations, the seriousness and the gravity of the situation can be more easily imagined than described. A new poor class comprising the members of the erstwhile middle-classes was created almost overnight,

whilst the ordinary masses, at least those of them to whom the war opened no new opportunities for lucrative employment, were just reduced to a sinking condition which was so graphically symbolised in the tragic finale of the great Bengal famine of 1943.

The question naturally arises: why is it that the Government of India failed to stabilise the cost of living index number and prices in general, a task which was so successfu ly achieved by the other major belligerent nations? It is not enough to say that India recklessly resorted to currency inflation as a mode of war finance, a method which was eschewed by the other belligerent countries. The volume of note circulation expanded quite as much in the U. K. as in India and yet Britain steered clear of the rock of price inflation. The real explanation must, therefore, be sought in other factors of the situation.

To begin with, the Government of India, unlike the Governments of the U. K. and Germany, had no ready-made plan for price control at the war's outbreak. It is true the Government of India delegated powers of price control under the Defence of India Rules to the various Provincial Governments almost immediately after the outbreak. But there is little evidence to prove any awareness, on the part of either the Central or the Provincial Governmen of the immense complexity of the problem which the subsequent grim turn of events so eloquently revealed. Apart from the usual complacency of the bureaucracy in India, effective price control was also rendered difficult by the amazing ignorance of business methods and technicalities in the ranks of high

Government officials. The Indian civil servant, brought up in classical lore and specially trained for the job of maintaining law and order in the civil and political domain and for the collection of revenues, naturally felt quite out of depths when circumstances demanded his active intervention in the highly complicated economic field. The proper exercise of economic controls requires a special type of training and experience which was largely conspicuous by its absence in India. Thus, for quite a long time, the approach to the problem of price control was academic rather than business-like, with dismal failure as the inevitable consequence.

Ignorance and complacency on the part of the bureaucracy were not, however, the only factors responsible for the comparative failure of price control in India. Lack of co-ordination between different administrative units (which was vitally necessary in a vast country of continental dimensions like India), insufficient liaison work even between different Departments of the same Government, delay due to red-tapism, and, above all, lack of an adequate supply of administrative personnel of the right type,—all these factors were responsible, in no small measure, for the failure of price control measures. The Government of India has had to encounter great constitutional difficulty in enforcing its price control programme in view of the prevalence of the system of Provincial autonomy (with its implication of non-interference of the Central Government in Provincial matters) and in view of the existence of numerous Native States scattered through-out the length and breadth of the country, over which the Central Government could exercise only

indirect pressure. Thus the uniformity of action which was a vital pre-requisite for the successful operation of price control measures, was rendered extremely difficult by the existence of a bewildering multiplicity of more or less semi-independent administrative units. Experience has proved that price-control measures can be more effectively enforced only in a highly integrated and a more or less unitary administrative structure. In India, quite a long time was allowed to elapse before the Central Government learnt to assert its over-riding authority for compelling the different Provincial Governments to fall in line with its price control programmes. Prior to such assertions of supreme authority by the Government of India (which apparently required the stimulus of the great tragedy of the Bengal famine), it was no unusual spectacle to see different Provincial Governments trying to make profits out of the sale of foodgrains to their less fortunate sister Provinces. Thus narrow Provincialism for a long time remained a great obstacle to the evolution of an all-India policy of price control, particularly in respect of foodgrains.

The multiplicity of Departments, involved in the enforcement of price control measures, amongst which there was no provision for close liaison work, was also responsible for undue delay in the discharge of the vital task of distribution of foodgrains throughout India. For example, the Department of Civil Supplies in Bengal had to deal with the Food Depament, the Department of Civil Supplies and Industries, as well as the War Transport Department of the Government of India for fulfilling its general function of procurement and

distribution. It often happened that the whole programme of the Provincial Civil Supplies Department was completely upset by the the lack of co-ordination between the three Central Departments referred to above which were jointly responsible for enabling the Provincial Government to secure its essential requirements. Again, the vital interests of the consumers were often sacrificed through endless wrangling and mutual bargaining between different Provincial Governments. For instance, the Government of Bengal has had to depend upon the Government of the United Provinces for the supply of mustard oil in Bengal. In the interests of oil mills in Bengal, the Bengal Government was naturally interested in securing as much mustard seeds as possible from the U. P. The Government of the U. P. was interested, for the same reason, in supplying as much mustard oil and as little mustard seed as possible to the Government of Bengal. The only outcome of this rather unseemly quarrel between different sister Provinces was that the poor consumer in Bengal had to do with-out mustard oil for quite a long time. Price control, it should be remembered, depends upon adequacy of supply which was necessarily hampered by such bargaining tactics employed by different Provincial Governments. Again it often happened that the same commodity was placed under the control of more than one Department of the same Government resulting in inefficient control. This is amply illustrated in the case of Sugar and Gur in Bengal. The Department of Civil Supplies in Bengal was responsible for the importation and distribution of sugar from outside Bengal upto the limits of the sugar

quota fixed by the all-India Sugar Controller. But sugar that was produced in Bengal was under the Department of Commerce and Industry. The task of price control in respect of sugar was necessarily rendered very difficult by the absence of proper co-ordination between the two Departments of the same Government exercising a divided sway over the same commodity.

Lack of adequate administrative personnel was another factor responsible for the failure of price control measures. The permanent administrative staff, both of the Central and the Provincial Governments, was barely adequate for the pursuit of a laissez-faire economic policy. When, therefore, under the sheer pressure of events, this laissez-faire policy had to be abandoned in favour of an active policy of State intervention (a transformation which was by no means readily or smoothly achieved in view of the early hesitant attitude displayed by the alternations of the policy of control, de-control and re-imposition of control in respect of foodgrain prices,) the utter inadequacy of the administrative staff became all too manifest. The Government was thus forced to employ an army of temporary employees (with qualifications not always up to the mark), possessing very little sense of stake in their services and very little sense of public responsibility and of official dignity. It is no wonder that corruption and bribery, for which there were almost unlimited loopholes in the new era of economic controls, became rampant among the ranks of these new temporary employees, though unfortunately there is also evidence to prove that corruption was by no means their sole monopoly. The few convic-

tions of some of the most responsible members of the regular administrative staff, which are to be found on record, suffice to prove that even Caeser's wife was not above suspicion and that the much-advertised ethical code of some of the members of even the convenanted services in India was not altogether impervious to the allurements of the new regime.

The lack of full popular support for the administration and the lack of spirit of co-operation between the Government and the business community were further complicating factors in the Indian situation. Experience of price control in other countries has proved the vital part the general public can play in ensuring the success of control measures. In India, lack of political support for an administration, mainly alien in character, though not always so in complexion, made the Price Controller's task almost a hopeless one. An atmosphere of widespread suspicion of all Governmental acts, even if conceived with the best of motives, has prevailed, more or less, throughout the control regime. An attempt has no doubt been made to associate non-officials with the administration of various controls, but the right type of non-officials possessing a general hold on the public was seldom available for joining the various Advisory Councils or Committees.

In the administration of controls, the Government of India followed the policy of the British Government of utilising existing channels of trade as far as possible. But the results achieved in the two countries have been widely different. In the U. K, collaboration between the the Government and the business community existed even before the war. The British Government, therefore, could count upon the good-will of the business community even

in cases where, as in the milk trade, some fundamental overhauling of the existing lines of trade was found to be necessary. In India, on the other hand, there was, to say the least, no such tradition of close co-operation between the Government and the Indian business community. The alien character of the a ministration has been not a little responsible for the absence of the co-operative spirit between the administration and Indian business interests. The typical Indian business-man, when he felt the tightening grip of controls, naturally showed very little of the spirit of acquiescence and resorted to all sorts of questionable methods for circumventing such controls. Circumvention was not found to be too difficult when the connivance of petty Government officers could be purchased by the payment of some black money. As a matter of fact, the payment of black money became such a universal practice that businessmen often included it as a part of their costs with the inevitable result that the normal profit allowed in the computation of the controlled price could not be secured unless some additions to the controlled price were made. The hostile attitude of the business community was also often roused by the Government's policy of selecting only a few Agents out of the ranks of traders or even outside their ranks. Thus nepotism, favouritism and corruption on the part of some Government officials militated against the successful functioning of price control measures.

Apart from the factors referred to above, the task of price control in India was rendered extremely difficult by the existence of a very large number of traders and producers lying scattered throughout the vast sub-continent. Experience of other countries has proved that the

Price Controller's job is rendered comparatively easy if he has to deal only with a small number of traders and manufacturers. In Great Britain, the success of price control measures was due in no small measure to the small and compact size of the country and also to the fact that the great bulk of foo stuffs consisted of imports over which effective control could be exercised at port centres. In India, none of these conditions has been present. Even where control could be enforced at the producer's end (as in the case of sugar and textiles) it was extremely difficult to maintain it at the scattered and far-flung distributors' end. Nor has it been possible for the Government to exercise an effective control over the entire supply and entire demand of commodities like foodgrains in a vast country like India. Governmental control over the supplies of and the demand for foodgrains, for instance, has been confined only to a small fringe of the market, while wide areas have been left practically untouched by any effective measures of control.

Last but not the least, the Price Controller's job was sought to be nullified by the Government's own Finance Department which was recklessly creating notes against virtually frozen sterling assets in the U. K. The Indo-British financial settlement, while it distributed the financial burden of the Far Eastern War more or less on a fifty—fifty basis between the British Government and the Government of India, was so conceived as to throw the real cost of the war almost entirely on Indian shoulders. No attempt was ever made to slow down the torrential flow of new currency notes which was primarily responsible for the dangerous inflationary spiral in India. Thus

it was a sort of Penelope's web which the Price Controller went on weaving and the Finance Department went on unweaving, almost simultaneously, and without break and without rest. Ths picture of a cat running after its own tail, that would perhaps be an apt description of the tragic drama of the comic endeavour at Governmental price-fixing in India.

Nevertheless, if we are to draw a balanced over-all picture, it should not be denied that the Government achieved some qualified measure of success in its endeavour which was concerned, for obvious reasons, with providing palliatives rather than a curative or preventive solution (the latter could be achieved only by a reversal of the Indo-British financial settlement which had the effect of, if indeed it was not primarily designed for, transferring the inflationary burden from the British to the Indian people). At least, India ultimately fared somewhat better than China, the Middle East and some of the occupied regions in South-East Europe. In 1943 the entire Indian economy was moving perilously towards the precipice. By adopting vigorous anti-inflationary measures, the Government of India at least succeeded in staving off a total disaster. The cost of living index number was more or less stabilised, though at something like 250 to 300% higher than the pre-war level. Since a general subsidy on British lines was never seriously thought of in India, nothing much better perhaps could be achieved in the existing circumstances. It is a pity, however, that even this modest degree of success was achieved only after, and not before, the unparalled disaster of the man-made famine of 1943.

CHAPTER V.

EVOLUTION OF FOOD RATIONING IN INDIA.

Chronologically viewed, the development of food rationing in India was preceded by the institution of rationing in respect of petrol and kerosene. The rationing of food-grains was thought of only when signs of food shortage were already looking darkly in the horizon and the prices of the major food-grains began to touch new, unprecedented heights. The first tentative suggestion for the introduction of food rationing in the principal urban areas of India was made by the Government of India to the different Provincial Governments towards the closing months of 1942. The only Provincial Government, however, which took prompt measures for implementing this suggestion, was the Government of Bombay which had the unique credit of introducing formal rationing in the city of Bombay in January, 1943. The success of the Bombay experiment dispelled widespread misgivings about the feasibility of rationing in India and the fine example set by the Government of Bombay was rapidly followed by the Native States of Cochin and Travancore and several other Provinces and States. By July 1943, rationing in foodgrains was in force in Bombay city and suburbs, Cochin and Travancore (where rationing extended even to rural areas), Bangalore, Indore, Bhopal and Quetta, while plans for the introduction of rationing were nearing completion in Madras, Karachi, Nagpur, and several towns in the U. P.

The foundation for an all-India policy of food rationing was laid down in the Resolution of the Third all-India Food Conference and the Report of the Food-grains Policy Com-

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mittee. The Gregory Committee recommended the introduction of rationing in the major food-grains in the principal urban areas of India. The experiment was to be made at first in towns possessing a total population of one lakh and above, and subsequently gradually extended to towns with a population of 50,000 and above and finally to towns with a population of 10,000 and above. It was calculated by Major- General Wood that in the first stage 58 towns would be affected, in the second stage 156 towns and in the third stage 990 towns. The annual amount of food-grains required to support these rationing schemes would vary from $1\frac{1}{2}$ to 4 million tons of food-grains. Thus a gigantic task of procurement and distribution, both inter-provincial and inter-district, was involved in the execution of the rationing scheme, which would reduce to utter insignificance similar operations under the old Basic Plan.

The Government of India also imported a British expert (Mr. Kirby) whose advice was sought for making rationing administration in India as scientific as possible. Mr. Kirby in his Report on Rationing submitted to the Government of India made the following pertinent observations: "The main object of food rationing is not to reduce consumption but to distribute short supplies in an equitable manner. . . When supplies are ample, rationing is necessary for effective mobilisation of resources against emergency; but when supplies are short and irregular, a closely controlled rationing is even more necessary to ensure a fair distribution to all." Mr. Kirby made the following ten-point recommendations regarding the essential ingredients of a rationing programme:—

(1) Comprehensive, efficient card rationing scheme is to be brought into immediate operation.

(2) The fact that supply condition is not yet satisfactory is no reason for postponing rationing. The

uncertainty of supply is additional reason for immediate rationing. The basic ration can be increased as supply will improve.

(3) Provinces and States should keep to a uniform model scheme and alter details to suit local conditions. The aim should be an equitable distribution of all essential food supplies and not only of commodities in short supply.

(4) It is desirable to establish Food Advisory or Food Control Committees throughout the country. The co-operation of experienced wholesale grain merchants should also be enlisted.

(5) Food rationing should be comprehensive. It is necessary to bear in mind probable expansion. Food rationing should be kept distinct from other commodity rationing.

(6) All food control must have legal sanction, and for rationing, the authorities require powers for enumeration, registration and distribution. These powers must be rigorously enforced.

(7) Rationing requires price-control. The price of the rationed commodity must be low enough for lower income brackets.

(8) A very high standard of integrity, skill and energy in the staff is necessary. In matters affecting the people's food the tempo of administration must be quick, imagination alert, and directions and control thorough.

(9) Moderate 'buffer' stocks must be maintained and 'turned' over to avert deterioration.

(10) Help and goodwill of the Press is to be secured.

The Government of India in a circular letter addressed to the different Provincial Governments recommending the

introduction of food rationing in the major urban areas, stressed the above 10-point rationing programme.

With the formal acceptance by the Central Government of a policy of instituting food rationing in the major urban areas, a new impetus was given to the rationing programme of different administrative units in India. Formal rationing was established in the city of Madras towards the middle of 1943. Calcutta was put on rationing on 31st January, 1944. By February, 1945 food rationing, in some form or other, was in force in 516 towns and municipal areas representing a population of nearly 50 millions. At the present moment the total rationed population in India, is approximately 53 millions distributed over 556 towns as well as rural areas liable to scarcity conditions. Of the total number of rationed towns 90 have a population of one lakh and above with Calcutta at the top. Bombay heads the list of provinces in respect of number of towns rationed (125), then comes Madras (94) and then the U. P. (42). The Province with the largest population under rationing is Madras (10,300,000), followed by Bombay (7,500,000), while the total for Travancore is 6,300,000.*. So far as Bengal is concerned, over-all food rationing prevails at the present moment only in greater Calcutta and the suburban areas, Dacca, Narayangunj, Comilla, Chittagong, Darjeeling, Kalimpong and Kurseong, comprising a total population of 5½ millions. Plans are also being made for extending rationing to seven other towns as well, *e.g.*, Midnapore, Bankura, Asansol, Burnpur, Kulti, Hirapur and Kharagpur. Besides a modified form of rural rationing is in force throughout the Province under which Government stocks of rice are available to 'A' class families (namely, families which are poor and

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*Information collected from a despatch of the Statesman's Special Representative in New Delhi published in the Statesman on February 17, 1946.

pay no union rate or municipal tax). This scheme has been recently extended so as to include in special cases 'B' class families (*i.e.*, families which pay a union rate or municipal tax of up to Re. 1/4/- per annum and have no stocks of rice). This rural rationing system is on the basis of family ration cards.

The tempo of rationing administration has recently received a fresh impetus on account of the present acute over-all food shortage in India, estimated at seven million tons, brought about by a large-scale failure of harvests in S. India. It has been felt that if this over-all shortage is to be evenly distributed among different sections of the Indian population, it is necessary to extend the rationing system as much and as rapidly as it may be administratively feasible. In the surplus areas rationing is necessary in order to ensure a minimum supply of vital food-grains to the stricken population. The crux of the problem to-day is the problem of supplies. If all the marketable surplus could be procured by the Government, it might, taken in conjunction with the reduced ration scale which has been announced and enforced for some time past, go a long way towards overcoming the effects of the acute shortage in food-grains which is causing so much anxiety at the present moment. Unfortunately, not much progress seems to have been achieved towards the establishment of a system of monopoly procurement of all marketable surpluses throughout India. Barring Bombay, Madras and the Native States of Travancore, Cochin and Mysore, nowhere else in India has any sincere effort been so far made for implementing the recommendations of the Gregory Committee and the Famine Inquiry Commission regarding the establishment of an ideal procurement system. The procurement system at present prevalent in the two 'surplus' Provinces of the U. P. and the Punjab, for instance, leaves much to be desired. The machinery of procurement

of even a deficit Province like Bengal is so very defective that last year out of a total estimated marketable surplus of nearly 4,500,000 tons not more than 750,000 could be secured by the Government. The Permanent Settlement is no doubt, as the Famine Commission has pointed out, a great handicap since, in the absence of up-to-date land records, it is very difficult to make a correct assessment of the producer's surplus of some 8,500 villages in Bengal. But we cannot help feeling that, given a proper sense of urgency, the task of collection of the necessary data should not have been thought to be beyond the capacity or resources of a Province which had to pay so dearly for its lack of preparedness only three years ago.

The results of the above short-comings are to-day writ large over the face of Bengal. The price of rice has shot up much beyond the controlled maximum price almost everywhere outside the few rationed areas in Bengal, causing much hardships to the poor and the middle class population. The Government is apparently helpless to do anything either by way of supplying rationed rice to the stricken population or for combating the menace of black markets. The stock of food-grains under the actual control of the Government, estimated at some 325,500 tons, is barely adequate for fulfilling the Government's existing rationing obligations for 22-25 weeks. So it is extremely unlikely that the Government will be able to feed the numerous deficit pockets which have cropped up almost everywhere in the Province, unless the Government's stock position is materially improved for whch there is very little chance on account of over-all all-India and global shortage in food-grains. If we remember that the total number of rationed population in Bengal is at present not more than 5½ millions (of which Calcutta alone accounts for more than 4 millions), we can easily realise the serious predicament in which the rest of Bengal's 65 million

population (of which only 20 millions are adequate producers; another 20 millions are inadequate producers while the remaining 25 millions do not produce any food crops at all) finds itself to-day.

If the Bengal situation is causing anxiety, the situation in South India is most alarming. An over-all deficit estimated at 3 million tons by Lord Wavell and at 7 million tons by Sir Akbar Hydari cannot be easily over-come. Two courses were left open to the Government. One was to maintain the existing ration scale and hope to receive imports for maintaining the ration throughout the year. The other alternative was to reduce the basic cereal ration from 1 lb. per day to 12 ounces with 4 ounces more for the heavy manual worker. In this way, the deficit could be spread throughout the year and over the whole country. The Viceroy, while accepting the second alternative, also strongly advocated:

(*a*) the widest possible extension of rationing;
(*b*) the procurement of all surplus grains all over India; and
(*c*) the proper distribution of this surplus to areas in need.

He appealed to the landlord and the cultivator to produce as much food as possible, not only food-grains but also vegetables, potatoes, sweet potatoes and the like. He also appealed to the well-to-do classes to make a real sacrifice, to cut out all extravagant entertaining and to limit their consumption of bread, flour, cake, biscuit or rice to the absolute minimum. The cereal ration, it was pointed out, is all that a man in the scarcity areas or the poor man in towns has to eat, while the rich have many alternatives or additions in the shape of meat, fish, vegetables, fruits and so on.

Following the Viceroy's lead, the ration scale has been

reduced all over the country to a uniform level of 12 ounces per adult per day with a supplementary allowance of 4 ounces for the heavy manual worker. Other economy measures enforced or contemplated include:

(1) enforcement of a proper austerity standard of consumption in restaurants and clubs,
(2) reduction in the Army ration scale which is to be brought to a level of parity with the civilian ration for heavy manual workers; and
(3) the setting up of a fashion among the well-to-do classes to dispense with cereal consumption as much as possible.

While the economy measures referred to above can give some amount of breathing space to the harassed Administration, no lasting solution seems to be possible unless adequate imports are available. The allocation of surplus food-grains among different 'deficit'' countries is at present made by the United Nations' combined Food Board at Washington. The Government of India's case was at first represented before this Board by the Agent-General of the Government of India in the U. S. A., but no concrete results were achieved. The problem of feeding hungry Europe and the hungry peoples of Japan and the Far East apparently carried much greater weight with the Washington Board than the problem of feeding India. The next step taken by the Government of India was to send a Food Delegation with Sir Ramaswami Mudaliar as Chairman to Washington for a more forceful representation of India's case, but only very meagre results were achieved. The next most important development took place when Mr. Hoover paid a hurried visit to India on behalf of the U. S. A. Government to take a first-hand view of the actual situation in India. This visit of Mr. Hoover has considerably helped to make the facts of the Indian

situation better known to the world outside and the prospects of receiving imports have definitely brightened up. Moreover, Java has also offered to give some rice to India in exchange for cloth. The Government of India is also trying to bring some rice from Burma and Siam. India also expects to get some wheat from Australia in the near future.

The fate of Food rationing in India to-day is bound up with both internal and world factors. There is a global shortage of food-grains on account of the large-scale devastation brought about by the war both in Europe and the Far East. Mr. Hoover has calculated that at least eleven million tons of food-grains are immediately necessary for feeding 150,000,000 starving population in Europe and Asia to-day and that too on the grim and dangerous basis of 1,500 calories per day as compared with the present ration scale of 3,200 calories for Americans, 2,800 calories for Britons and a minimum average subsistence level of 2,200 calories. Mr. Hoover is also of the opinion that this entire quantity can come from the U. S. A. (44 per cent.), Canada (20 per cent.), U. K. (10 per cent.), Australia (10 per cent.), Argentine (6 per cent.), and Soviet Russia (12 per cent.). While Mr. Hoover's calculation has been obviously based on his estimate of surplus at present existing in the countries mentioned above, it may be noted, the supposed surpluses can emerge only if internal economy measures are adopted in those countries and if a proper procurement machinery is adopted in those places. It is gratifying to note that both Britain and the U. S. A. have already taken some measures for reducing their wheat consumption in order to make their contribution to the solution of the world food problem, though Britain has not yet taken any final decision on the question of introducing bread rationing.

It is thus clear that the future of food rationing in India is becoming increasingly bound up with world developments

on the food front. While the over-all food shortage in India under-lines the need for the greatest possible extension of rationing, the possibility of maintaining even the existing rationing system hangs perilously on the uncertain prospects of receiving sufficient imports from without. The Basic Plan is no longer adequate for ensuring the success of the rationing programme. The 'One World' of Mr. Wilkie has come to be almost prophetically true on the food front at any rate.

So far we have confined our study to the broad historical factors which have affected the evolution of the system of food rationing in India. We shall now turn our attention to some details regarding the scope, incidence, mechanism and general quality of the food rationing administration in India.

Food rationing in India has mainly taken the shape of cereal rationing and is still largely an urban phenomenon. Only a few commodities of general mass consumption have been put on a rationed basis, *e.g.*, cereals like wheat, rice and millets, sugar, and in some places mustard oil, salt and pulses as well. Thus no attempt has been made to include all kinds of food in a scheme of over-all rationing, as was done under various Continental rationing schemes. Outwardly, the Indian system resembles the British system since in both of them only a few select Food commodities have been placed on the ration with this fundamental difference, of course, that while in the U. K. the entire population has been rationed, in India the rationed population is about one-eighth of the total. But even this resemblance is only a surface phenomenon. Bread, the principal food of mass consumption in Britain, was kept ration-free in England throughout the war. The British rationing system was more concerned with nutritive and protective foods than with foods necessary for bare subsistence. Meat, meat-products,

fats, sugar, jam, eggs, milk and several kinds of tinned foods were the principal commodities included in the British system. In India, nutritive and protective foods were left practically both uncontrolled and un-rationed with the inevitable consequence that their prices soared to levels which put them much beyond the reach of the poor and middle class consumers.

Secondly, the Indian rationing system resembles the British in that under both systems the method of equal *per capita* rationing, as distinguished from the Continental system of highly differentiated rationing, has been adopted (though, of late; some modification has been made in the Indian system by granting some extra allowance for heavy manual workers along Continental lines). But there was a good deal of flexibility in the British system which has been practically absent in the Indian system. The British system provided, for instance for all sorts of supplementary schemes for meeting the special nutritional requirements of particular groups of consumers. For example, there is a system of communal feeding through industrial Canteens, school Canteens and British restaurants for the public, in which industrial workers, school children and the general public can take every day one highly nutritous meal offered at a very subsidised rate outside the dry ration. In India the idea of starting industrial Canteens for the supply of cooked foods to industrial workers has been put forward from time to time by the Government of India, but only a few industrial centres, such as the Tata's, can so far boast of possessing such Canteens for the labourer. School feeding schemes are practically unknown in India except in some missionary or philanthropic Institutions. For the use of general public, restaurants and eating houses are, of course, there and they (i.e., these restaurants) also get their supplies of rationed foods from the Government, but the meal charges

are absolutely prohibitive for the man of humble means. Again, in Britain, special arrangements were made for caternig to the special needs of the vulnerable sections of the society such as invalids, children and mothers. Special ration cards were issued to such 'priority' groups of consumers for the distribution of vital protective foods like milk, eggs, fruit juices, cheese etc. which were often reserved exclusively for their benefit.* In India, practically nothing has been done to safeguard the future health of the nation, and children and mothers belonging to the 'lower' and 'middle' income brackets have been kept exposed to the full brunt of war-time scarcities and inflation and practically denied all health-giving foods which were monopolised by the Army and the fortunate rich minority.**

The results of the above glaring discrepancies between the Indian and the British systems of war-time food rationing are writ large over the faces of the two countries. Under the British system of food administration, the nutritional standard of the British diet has been appreciably improved and the average standard of health of the British people has reached a new optimum level which was never attained before the War. This conclusion is borne out both by the Report of the League of Nations on War-time Food Consumption and Rationing as well as by the following quotation from an English Weekly:—

**Vide* Food Rationing and Supply 1943/44, League of Nations, 1944.

**The only notable exception has been provided by Bombay (City) which has not only prohibited the use of fresh milk by catering establishments but has established a Milk Rationing scheme under which children and mothers can get half pound of milk per day at a highly subsidised rate on the production of special Milk Cards (the losses due to subsidy are borne by the Government of Bombay and the Bombay Corporation on a fifty-fifty basis).

> "Before the war, we talked about prosperity in abundant life. There was more unemployment than prosperity for the masses throughout the world and blunder was piled on blunder. Now that we are planning for scarcity and reducing consumption of non-essentials, the people as a whole are better fed. There is less poverty and nobody goes short." (Liverpool Echo).

What a glaring contrast presents itself, if we just revert our glance from the British to the Indian system. Apart from the disastrous failure of the food administration in India ending in the Bengal famine with its heavy toll of 35 lakhs of innocent human lives (according to the official estimate of the Famine Inquiry Commission) and its devastating effect on the health and morals of millions who suffered but survived from the great ordeal, the general standard of health throughout India (which was far below the optimum even in normal years owing to chronic poverty of the masses, a general lack of knowledge of a well-balanced dietary, unhygienic social surroundings, the ravages of tropical diseases etc.) has received a shattering blow during the last seven years on account of the very high prices of protective foods and a marked deterioration in quality of ordinary foods. The task of rehabilitating the devastated health of the rising generation in India is a task of the first magnitude which must be given priority over all other schemes of post-war reconstruction which may be taken in hand in the near future.

No appraisal of a rationing system is possible without a reference to the scale, quality and price of the rationed commodity. As regards ration scale, the policy of the Government of India, as we have already seen, was to maintain a uniform scale throughout India. The original aim of the Government was to supply 1 lb. of foodgrains per adult per day, and half the amount per child. A

child was to be defined, according to the Resolution passed by the fifth All-India Food Conference, as a person aged between 0 and 8 years for the purpose of rationing administration. The actual ration scale in different areas, however, revealed wide disparity for quite a long time, nor was there any uniform definition of a child. Under the Calcutta rationing scheme, for instance, a child was defined until recently as a person with age varying from 2 to 12 years. A child was given I unit ration, while an infant, defined as a person aged below 2 years, was given ½ unit ration. An adult was entitled to a ration of two units. For purposes of sugar, however, a uniform ration scale was maintained for persons of all ages. Generally speaking, the initial ration scale in various highly deficit areas in South India was much below the scale established in cities like Bombay and Calcutta. This will be evident from the chart at Page 111.

The above statement refers only to the ration scale prevalent in metropolitan cities. In several rationed areas in South India, the actual ration scale was for a long time much lower still.

It is thus clear that the Government's policy of setting up a uniform ration scale throughout India was not fulfilled. In practice, the initial as well as changing supply position in respect of different rationed goods determined the ration scale in different areas and in different times.

The ration scale has, as we have already noted, been recently reduced to a uniform level of 12 ounces per adult per day with an extra allowance of 4 ounces for heavy manual workers (including domestic assistants). This drastic reduction makes the ration scale extremely inadequate specially for the poor man whose main food is rice or wheat. The only justification is that there was no other course left open if large scale starvation in the famine-stricken areas was to be minimised.

Ration-scale in 1944.

Provinces.	Important towns.	Rice max. allowed.	Wheat.	Sugar.
Bengal	Calcutta	5 lbs.	7 lbs.	10 oz.
Bihar	Patna	6 lbs. rice or wheat		varies from 8 oz. to 1 lb.
Assam	Shillong	6 lbs.	2 lbs.	$10\frac{1}{2}$ oz.
Orissa	Cuttack	3.4 lbs.	2 lbs.	9 oz.
Punjab	Lahore	nil.	7 lbs.	12 oz.
U. P.	39 Regulated towns.	10.15 lbs.	total cereal ration.	10 oz.
N. W. F. P.	Peshawar	8 lbs. total cereal ration		
C. P. & Berar	Nagpur	7 lbs. total cereal ration		
Madras	Madras City	7.7 lbs. total cereal ration		
Bombay	Bombay City	4 lbs.	4.14 lbs. total cereal ration.	
Delhi	New Delhi	$5\frac{1}{4}$ lbs.		

The Government of Bengal, while announcing their readiness to fall in line with the above orders of the Central Government, however, offered some indirect relief by adopting a new definition of a 'child' for rationing purposes and also by making some alterations in the scale of the children's rations. For example, whereas formerly a child was defined to be a person aged from 0 to 12 years, a child is now defined as a person aged from 0 to 8 years only. Secondly, under the old system children below 2 years were entitled to half unit ration only. This system has been abolished and all children have been given 1 unit ration.

The number of rationed goods also varies from place to place and from time to time. For example, mustard oil has been placed on rationing in Calcutta comparatively recently. Again, pulses are rationed only in Chittagong and in Assam. Salt is included in the Calcutta rationing scheme, but it has been left out in several rationed areas. The inadequacy of the ration scale from the nutritional point of view will be amply borne out, if we just remember that the daily scale of issue to Indian troops engaged in the war was 24 ounces of cereals (rice or wheat), $2\frac{1}{4}$ oz.'s of sugar and $4\frac{1}{2}$ oz.'s of pulses.* The inadequency of the sugar ration has been particularly felt in middle class families where customary hospitality requires that tea should be served out to all guests. No allowance seems to have been made for such demands of social obligations. In mofussil towns where systematic rationing does not prevail, sugar scarcity sometimes takes an acute form. The position is much worse in the rural areas where people have to depend on the mercy of the local Food Committees for securing their none too generous quota of sugar. The only redeeming feature in the country-side is that gur, when locally produced, is

*Vide B. R. Sen's statement in Council of State debates dated November, 20, 1944.

generally available but it is no effective substitute for sugar for purposes of tea consumption.

The rigidity of the rationing system was also felt in various ways. For instance, in many Hindu families and Hindu religious institutions offerings of cooked foods known as "Bhogs" are generally made to the deities as a matter of religious custom. When the rationing system was first introduced at Calcutta, no allowance was made for such purposes and this caused a good deal of annoyance and inconvenience to many Hindu homes and institutions. Subsequently, however, as a result of special representations made to the authorities, it was recognised that "deities" were to be treated as persons for the purpose of rationing administration. Again, it is customary for Hindu widows to take Atap rice only. But there was no provision for the supply of such rice from the ration shops. Subsequently, however, as a result of popular clamour, the Government tried to supply *Atap* rice for widows, though it has often failed to do so. The success of a system of food rationing is to be judged by the degree of elasticity it is capable of, and by the extent to which the inevitable frictions of a uniform, rigid system can be overcome. The lack of public co-operation with the actual administration of food rationing was largely responsible for a good deal of unnecessary public annoyance created particularly during the early phase of the era of rationing.

The quality of the rationed foods was also extremely bad in the initial stages of rationing at any rate and is even now far from being perfect. What passed off as rice or wheat contained a good admixture of bricks, stones, sand and other harmful ingredients not particularly meant for use in human stomachs. Malpractices indulged in by grain-dealers including Government agents, lack of proper storage facilities, lack of inspection at the loading centres,—these are some of the causes which accounted for the bad quality of rationed

foods. Another factor of major importance was the reluctance of the Government for a long time to recognise the distinction between different grades of quality which was always observed by the trades concerned. It is, however, gratifying to note that the position as regards quality has shown appreciable improvement of late, following the adoption of better inspection methods and following the decision of several Provincial Governments to sell rice in different qualities at widely varying prices.

Since the object of food rationing is to help the common people to secure their legitimate requirements of food the success of the rationing system depends very much upon the price at which rationed goods are made available. In an ideal rationing system food prices are kept as far as possible at their normal pre-war levels, or at most they may be allowed to rise only to the extent to which the average money-income of the lowest income-brackets has been or may be allowed to rise.* In the U. K. the prices of essential food commodities, both rationed and non-rationed, have not been allowed to rise by more than 18 per cent. The British Government followed a very generous policy of subsidy and spent nearly £150 millions per annum in order to stabilise food prices at that level. The producer, whether foreign or domestic, got the reasonable market price from the Government which, as the monopolist seller of food commodities, fixed a much lower retail sale price for the benefit of the consumers, pocketing the loss in the transaction due to the difference between the higher purchase price and the lower sale price. The Government of India have by no means been oblivious of the necessity for selling rationed goods at reasonable prices, but the methods pursued and the degree of success attained have been quite different. The problem of subsidised ration is much simpler in Great Britain than in India. In Great Britain, the entire population is rationed,

whereas in India rationing has affected roughly one-eighth of the total population. If subsidy is to be granted, there is hardly much justification for confining the benefit to a fraction of the population. Secondly, the cost of the subsidy must be much greater in India than in the U. K., since in India the rationed food is mostly produced at home and, thanks to the high degree of inflation in India, the general index number in India shot up to meteoric heights and, in spite of the most rigorous anti-inflationary measures, still remains at a level of something like 250 per cent above the pre-war prices, while in Britain the bulk of the rationed foods is obtained from abroad at controlled price and the general price Index number in Great Britain has not risen by more than 72 per cent since 1939. Finally, the financial position of Great Britain and her capacity to bear loss due to a policy of subsidy are much superior to those of India. While no general policy of subsidy has been so far followed in India, the subsidy idea is nothing new here. Some form of subsidy was granted in pre-rationing days when the controlled shops used to sell food-grains at a highly subsidised rate in the interest of the poor consumers. Several commercial concerns, it might be noted in this connection, also granted subsidised ration to their employees. The Government also supplies subsidised ration to its own low-paid employees, though the amount and degree of the subsidy are not uniform in different Government establishments. The employees of certain State Railways in India have perhaps benefited most from subsidised ration, in view of the wide range of commodities which they are entitled to get from the Railway Stores.

At the present moment, subsidised ration is granted to the general public only under special circumstances. For instance, in the Madras Presidency and other southern areas wheat is sold at a subsidised rate in order to popularise the consumption of wheat among a rice-eating population.

Cheap cooked foods are also supplied in Cochin and Travancore at subsidised rates in order to popularise new preparations of wheat, barley etc. Some element of subsidy, it is claimed, has also been introduced in the fixing of the price of low grade rice under the comparatively recent arrangements for selling rice in varying qualities. The quality of the inferior rice, however, is, as a rule, so very bad that it is doubtful whether it could be at all sold except at a stock-clearing price.

The high price of the rationed goods is one of the principal causes responsible for the relatively low percentage of the off-take of rationed foods in India compared to the high 'off-take' percentage in the U. K. The Famine Inquiry Commission calculated on the basis of 22 weeks' actuals that the average off-take in Greater Calcutta was 2.68 seers per week as against a total cereal ration of 4 seers, or 13 ounces per day, and as against a nutritional minimum of 1 oz. per day (the above calculation did not take into account the existence of 'dead' cards which in the case of cards registered with Government stores constituted 16 per cent of the total). Prof. P. C. Mahalanobis calculated on the basis of five different surveys conducted at different times between 1936 and 1942 that the per capita cereal consumption in Bengal as a whole was 17 ounces per day, 13 ounces as regards the Calcutta Middle classes, and 16 ounces in respect of the industrial working classes. The All-India statistics of off-take of the cereal ration are 64 per cent as regards rice, 80 per cent of sugar. Commenting on this discrepancy between the off-take percentage in India and the U. K., Sir Henry French of the British Food Ministry had observed that one possible explanation might be the fact that in India relatively few commodities have been subjected to rationing so that it is possible for the people to take to supplementary foods. The 'possible' explanation, offered by Sir Henry

French, however, does not appear to be very sound. Ordinary people in India live mostly on cereals even in normal times. It is hardly likely that they have been able to resort to supplementary foods, the prices of which have as a rule gone much higher up in these difficult times. The analogy with Britain is also somewhat misleading since in Britain the primary foods were kept ration-free. The more plausible explanation may perhaps be found in the fact that in Britain food prices have been stabilised at almost pre-war levels while in India even the controlled price is nearly 300 per cent higher than the pre-war market price, while the average income of the common man has hardly risen by more than 50 per cent.

The technique of food rationing employed in India is generally the method of specific rationing, though the 'group' method has often been applied in the case of certain commodities, subject to certain maximum limits (which have been frequently altered in response to changing supply position) for different constituent units of the group. For example, the specific method has been exclusively applied to commodities like sugar, salt and mustard oil—the ration scale just now in force at Calcutta is 3.5 chataks of sugar per week, (originally it was $\frac{1}{2}$ lb. per week, subsequently raised to $1\frac{1}{2}$ lbs., again brought down to $\frac{1}{2}$ lb. and now dragged down even below the initial scale,—a vivid illustration of the dependence of the ration scale on the day-to-day changing supply position), 1 lb. of salt per month, and $\frac{1}{2}$ lb. of mustard oil per month per adult (mustard oil has been put on rationing at Calcutta comparatively recently). The 'group' method has been principally applied to cereal rationing. For example, when rationing was first introduced in Bombay, an adult was allowed to buy each week $\frac{1}{2}$ paylee of wheat and $\frac{1}{2}$ paylee of rice or bajri, or $\frac{1}{4}$ paylee of wheat or bajri and $\frac{3}{4}$ paylee of rice. Thus within the limit of 1 paylee

of total foodgrains ration, the maxima of rice and wheat were fixed at $\frac{3}{4}$ and $\frac{1}{2}$ respectively. Later on, as the wheat position improved, while the rice position deteriorated, the maximum of wheat was raised from $\frac{1}{2}$ to $\frac{3}{4}$ paylee while the maximum of rice was lowered from $\frac{3}{4}$ to $\frac{1}{2}$ paylee. The technique of fixing the maxima has also been applied to different qualities of the same rationed commodity.

When rice began to be sold at Calcutta in 3 different grades, fine (A), medium (B) and coarse (C), the maximum quantity of 'A' grade rice which could be supplied to a single consumer was limited to $\frac{1}{4}$th of a seer per week on a 1 unit or 2 unit ration card.

The highly limited range of commodities included in the Indian food rationing system militated against the development of the more diversified and more elaborate technique which has characterised the British and Continental rationing systems. There was no scope, for instance, for the application of the point rationing technique which has been applied in the U. K. to a wide variety of foods such as canned meats and fish, canned baked beans, biscuits, dried fruits, pulses, canned fruits and vegetables, condensed milk and porridge oats. The point system has enabled the British Ministry of Food not only to maintain an equilibrium between demand and supply through the double mechanism of price and point changes (in response to changing supply position), while giving the individual a good deal of freedom of choice, but also to introduce and popularise food items which were previously unknown to the British public.*

The limited range of the Indian rationing system is also responsible for the lack of elaborate classification of age groups which has characterised the continental systems.

*Vide Food Rationing & Supply 1943/44—League of Nations 1944.

Since physiological food requirements change gradually during a period of growth, the League of Nations has fixed up different calorie requirements for as many as eight age groups for persons with ages between 0 and 13 years. Most Continental systems recognised 4 or 5 age groups for the purpose of food rationing. In India not only there were only three or two age-groups (formerly 3 groups, 0-2, 2-12, 12 and above; at present only two groups 0-8, and 8 and above), but difficulties are also experienced in the conversion of a child's card into an adult card when the child attains the rationer's adult age. The Indian system is apparently based in this respect on the British model which also recognises very few age groups. But in Britain this deficiency has been more than overcome by the existence of other supplementary schemes like the "Milk in school" scheme, "school feeding for children" etc. of which there is no counter-part in India.

The administration of rationing involves the creation of a vast organisation as well as various technicalities. There is, in the first place, the problem of enumeration of the total population entitled to the benefit of the rationing system. This is a comparatively easy problem in a district or sub-divisional town but not so in a vast city like Bombay or Calcutta with a large floating population. The method actually adopted in most of the rationing schemes was to issue permanent cards for permanent residents and "temporary" cards for temporary residents. If guests are present, it is permissible to take out temporary cards in their names, though, unfortunately, a good deal of delay due to red-tapism often takes place in the issue of temporary ration cards which are sometimes supplied after the departure of the guests concerned. There should be provision for the immediate supply of temporary cards for guests, though, of course, there is the risk of abuse in such arrangements.

Again, a good deal of inconvenience is often experienced when a man transfers his residence from one rationing sub-area to another, necessitating the cancellation of the old registration and the making of a new registration. The whole process often involves an almost unconscionable amount of delay due to the dilatory and often harassing tactics of different rationing offices.

The card system of rationing has been adopted in India right from the very beginning when rationing was first introduced in Bombay. The family ration card system was used. Later on, however, it was found that under the family ration card system, the absence of particular members of the family was often not duly notified to the Rationing Authorities. Hence the individual ration card system was adopted in preference to the family ration card system, though in rural areas even now the latter system is usually employed.

Food rationing administration in India usually involves the registration of the individual card-holder with particular ration shops. This is found to be necessary in order to ensure a proper distribution of the rationed foods among different shops. Thus equation between supply and demand can be easily maintained. This method, however, has got certain disadvantages. In the first place, the individual consumer is placed wholly at the mercy of a particular shop: the shop-keeper can afford to be rude to his customers and has at least no motive to please him, either by supplying good quality food-stuffs or by proper manners. Secondly, when the maximum number of ration cards to be registered with a particular shop is laid down, late-comers are often forced to register their cards in distant shops which may cause not a little trouble and inconvenience particularly in highly congested cities like Calcutta with over-loaded trams and buses. The sense of annoyance becomes almost suffocating when the same individual has to visit different ration

shops situated at great distances from one another for the supply of different kinds of rationed foods, not an unusual experience of many a Calcutta resident.

The administrative organisation of Rationing is a very elaborate one. In a sense, Rationing organisation is a part and parcel of the entire organisation of the Central Food Department and the Provincial Departments of Civil Supplies. In practice, however, there is a separate Rationing Organisation in every Province. There is a Provincial organisation with the Director of Rationing at the head. The Director of Rationing, who is under the control of the Department of Civil Supplies, is entrusted with the task of initiating, supervising and co-ordinating the rationing administration throughout the Province. Subject to the supreme control of the Director of Rationing, there are separate Rationing Authorities for separate rationed areas. The character of these separate rationing organisations is highly complex in big cities, but relatively simple in small towns and rural areas.

The organisation in Calcutta and Bombay, for instance, is necessarily most elaborate. The Calcutta rationing scheme affects a total population of 4.4 millions, inhabiting an area of 152½ sq. miles and consuming about 35,511 maunds of foodgrains daily. There are nearly 90 godowns controlled by the rationing authorities, in which the rationed commodities are stocked. Distribution takes place through 2416 shops of which 1134 are private shops, 515 Government stores, and 707 employers' shops. The total staff employed by the Rationing offices comprise more than 6000 persons, excluding nearly 3000 coolies. Besides the Head Office, there are about 60 sub-offices in the various parts of the rationed area. The Bombay rationing scheme affected nearly 2½ million people inhabiting an area of nearly 240 sq. miles. As things stood in October, 1943, every week

19,900 mds. of foodgrains were distributed among the public. Distribution in the City took place through 184 Government retail shops, 560 authorised ration shops, 103 Co-operative Societies and 281 mills and factories. In the suburbs there were 110 ration shops, 18 Government shops, 37 factory shops and 9 co-operative societies. The rationing organisation in Bombay also tried to enlist the support and sympathy of responsible non-officials. There is a Food Advisory Council representing trade associations, the Bombay Corporation, the Trade Union Congress and the Defence Department. Besides there is a committee of doctors and nutritional experts to advise on the nutritional aspects of rationing. There is also a non-official rationing committee in each city ward.

The nature of the rationing organisation is much simpler in the district towns and in other mufussil areas where rationing is prevalent. The district controller of civil supplies or the sub-divisional controller of civil supplies, is the head of the Rationing Organisation in each District or sub-division. Non-Official support is enlisted through the formation of the District Food Committee, the Union Food Committee, the Development Committee etc. Full formal rationing by means of the card system of distribution does not prevail throughout the rationed area. In many of the smaller towns only informal rationing prevails. The distinction between formal and informal rationing is not of much practical importance: it is nonetheless a very real one. Under full formal rationing, the Rationing Authorities fully undertake to supply the rationed goods; under informal rationing there is no such undertaking. As a corollary to this, it follows that whereas in the formally rationed areas, free markets in the rationed goods are not allowed to exist, under informal rationing, such free markets cannot be abolished. Informal rationing, whether

full or partial, has certainly the advantage of greater elasticity and adaptability to a changing supply position, but it places the price-controlling authorities in a hopeless dilemma. In the initial stages, rationing also sometimes took the form of provisioning certain classes of the population in towns and cities, leaving the rest of the population in those towns and cities to buy their needs without restriction as to the quantity in the open market. The Government of India's attitude towards such schemes has been beautifully summed up in the following observation of Mr. B. R. Sen.* "Whatever justification there might have been for these provisioning schemes when they were first introduced, there can be no doubt that these provisioning schemes cannot be regarded as permanent substitutes for full rationing. Such provisioning schemes do not serve the main purpose of rationing, viz. distribution of the over-all shortage on an equal and equitable basis, and also keep up prices in the open market by allowing the comparatively well-to-do section of the population to buy as they please. Experience and force of circumstances are now combining with the Government of India to persuade the Provincial Governments to agree to take steps to change over to full rationing in accordance with the principles laid down by the Government of India." In keeping with the spirit of the above declaration of policy, informal and partial rationing schemes in towns and cities have been largely replaced by full formal rationing, though in the rural areas such provisioning schemes are still largely prevalent.

Before concluding this chapter, a few words may be said regarding the value of the Indian food rationing system from the nutritional point of view. The League of Nations survey of various European rationing systems has tried to

*B. R. Sen's statement in the Council of State debates. November 14, 1944.

evaluate different systems of rationing by the criterion of a nutritionally optimum diet established by an ideal rationing system. A nutritionally ideal diet includes many items in addition to the principal cereals, and it varies according to climatic conditions, age-groups, sex, nature of occupation, the state of health etc. A proper combination of carbo-hydrates, fats, proteins, minerals and vitamins constitutes the very essence of a well-balanced diet. The normal caloric requirements of an adult vary from 2500 to 3000 per day. Carbo-hydrates and fats are the main energy-giving constituents in the diet while proteins are the main body-building constituents. Minerals and vitamins are essential to the growth and functioning of a healthy body. Fat is mainly consumed in the form of milk, cheese, cream, meat, bacon, nuts etc. Dieticians favour a diet furnishing from one-fourth to one-third of total calories in the form of fats. Proteins may be derived from milk, meat and eggs (animal proteins) or from cereals, peas, beans and nuts (vegetable proteins). The protein intake of every adult should not be less than 1 gramme per kilogramme of body weight, while for growing children and nursing mothers it should be much higher, in the case of children 1-3 years of age as high as 3.5 grammes per k/m of body weight. Minerals like calcium and phosphorous are mainly consumed in the form of milk, eggs, vegetables, cheese and fruits. The minimum calcium requirements for an adult are 0.88 grammes of phosphorous and 0.45 grammes of calcium per day. Vitamins are consumed mainly in the shape of fruits, berries, vegetables, potatoes, whole bread, cereals and milk. Vitamin A is necessary for the growth and the maintenance of health, particularly of the skin and respiratory system. Vitamin B is essential to the growth and the maintenance of appetite and affects the metabolism of the body. Vitamin C is particularly essential for young children and nursing mothers.

The average Indian diet is composed mainly of carbohydrates and of vegetable proteins. Fats, minerals, and vitamins are notoriously deficient in the Indian diet. Continental rationing system including the British system have sought to give as much as possible a balanced diet to the people, particularly to the vulnerable section of the community. The Indian rationing system did not even endeavour to produce a balanced diet for the people. The highly limited range of commodities affected by the rationing system completely militates against any such possibility. These are also serious obstacles to be encountered if the Rationing authorities in India try to emulate the examples of the more advanced countries. In the first place, the per capita income of the Indian people is so very low that a well-balanced diet is quite beyond the reach of all but a small fortunate minority. Secondly, the diet habits of the Indian people, including the relatively well-to-do classes, are, to say the least, not very scientific. Thirdly, Indian agriculture has not been adapted to the full nutritional requirements of the Indian people. The production of milk, milk products, fish, eggs, meat, vegetables and fruits has been far from being adequate for the provision of a cheap balanced diet for the Indian population. Fourthly, food industries and food technology are extremely undeveloped in India, though some progress in this respect has been achieved during the last few years. India must develop scientific methods of preservation of perishable foods, modern methods of storage, packing etc., before there can be a satisfactory solution of the problem of "enough food for all and of the right quality, and at prices which all can afford." The present system of food rationing in India, highly unsatisfactory as it is, thus in a sense reflects the fundamental defects in the present organisation of our economic life.

CHAPTER VI.

"OTHER COMMODITY" RATIONING.

Next to food, the most important commodity, which has been rationed in India is cloth. As in the case of food, the rationing of cloth in India is still largely an urban phenomenon. Full, formal cloth rationing by means of the card system is still confined only to the big towns and cities. In the smaller towns and in rural areas generally, there is no formal universal system of cloth rationing. Uncertainty of the supply position is primarily responsible for the reluctance of the Authorities to establish a formal system of cloth rationing. In the district town of Chittagong, for instance, when some fresh bales of mill-made cloth arrive, the authorities issue special cloth coupons for the purpose of regulating the distribution of such new cloth arrivals. If the supply is rather small, distribution is confined to Government servants only, the superior qualities being often reserved exclusively for Government officers of a Gazetted rank. Special cloth coupons are distributed among the general public only when the supply happens to be comparatively large. If the quality is very bad and there is no general public demand for it, the method of "open" sales is often adopted for facilitating disposal of such unsaleable stocks.

The necessity for putting cloth on a rationed system was strongly felt only after the failure of all earlier attempts at control over cloth prices. Just as rationing was found to be the only solution for the problem of food famine, so also it was found to be the only remedy against the universal problem of cloth famine which developed from 1943 onwards.

The problem of cloth rationing is somewhat different from the problem of food rationing. Whatever justification there might be for excluding the rural areas from the scope of food rationing, there is none for confining cloth rationing to the urban areas only. Cloth rationing, therefore, should include within its scope the entire population of India which makes the problem a vast and extremely complicated one. The nature of the problem is also somewhat different. Unlike food, cloth is a relatively durable commodity. The sartorial habits of the people show wide differences. A person's requirements of clothings depend upon age, sex, nature of occupations, inherited traditions, the level of income, standard of living etc. Generally speaking, town-dwellers require more clothings and finer varieties of cloth than the rural population. A scientific scheme of cloth rationing should take into consideration all these factors. In the U. K. the 'point' system of rationing has been adopted for solving Britain's war-time cloth problem. A definite number of points or coupons has been allotted to each individual. A good deal of choice has been left to the individual, though the total demand is limited. The cloth rationing problem in England was fundamentally the problem of restricting the consumption of cloth with a view to releasing factors of production for military use. Not only the total consumption has been restricted, but the number of varieties of cloth has been severely curtailed with a view to avoiding wastes, unnecessary duplication of plants etc. Under the utility cloth programme, only a few varieties of cloth of standard specificatons can be produced. Thus the textile industry has been rationalised in a manner which could hardly be deemed feasible in normal peace-time. At the same time, however, the utility programme does not aim at a mere soul-less standardisation. There is a simple beauty and fundamental dignity in Britain's war-time dresses.

The nature of the cloth problem in India has been quite different. Unlike Britain, India was far from being self-sufficient in regard to her clothing requirements during peace time. The outbreak of the war, therefore, by reducing or cutting off the foreign supplies caused an over-all shortage of cloth which, however, became apparent only when the old stocks became somewhat exhausted, and as an increasing portion of India's textile plant capacity came to be appropriated by the military.

It was estimated that the per capita annual production of cloth in India was 16.25 yards per head. After allowing for the requirements of the Defence Services and the annual export quota (both of which have been appreciably reduced in recent months), the per capita share of the civilian population came to just under 13 yds. per annum. Since a part of this cloth included items like handkerchief, mosquito nets etc which are not very suitable for clothing purposes, the per capita share of cloth was too meagre to permit of a universal system of rationing. The success of a system of rationing, it should be remembered, ultimately depends upon the availability of supplies which are necessary for maintaining a minimum ration scale. This condition has not been fulfilled in the case of cloth in India. The Government, therefore, tried to appease the more clamorous urban population, while the rural masses were practically asked to make all sorts of interesting sartorial experiments with barks and palm leaves, if indeed they were not modern enough to start full-fledged nudist colonies in the fashionable Yankee style! But even in urban areas where full-fledged cloth rationing has been introduced, there is no provision for the supply of winter clothings (some winter clothings are occasionally distributed in very limited quantities to consumers through selected shops by means of the queue system).

The first pioneering attempt at cloth rationing, as in the sphere of food rationing, was made by the Government of Bombay. Here too, the City of Bombay presented a model to the rest of India. Rationing of mill-made cloth was introduced in the city and suburbs of Bombay on June 3, 1945. Distribution took place through 315 approved shops. The introduction of formal rationing in Bombay was preceded by some informal type of rationing under which one pair of dhoties or saries could be purchased from Government-approved shops against the production of the Foodgrains ration cards of the Head of the Family.

In Calcutta, where the cloth problem was much more acute than in Bombay, formal cloth rationing was introduced only on September 3, 1945. Prior to the introduction of full rationing, an interim rationing scheme was launched on May 7, 1945. Under the scheme every adult holder of a Foodgrains Ration Card could secure one unit of cloth ration provided that he could prove the urgency of his or her individual needs. Ward Committees consisting of responsible non-officials were set up in different parts of the city. Cloth 'permits' could be issued by such Ward Committees to persons whose needs were adjudged to be most urgent. The Ration Unit was 1 piece of dhoti or one piece of sari or 1 piece of chaddar or bed cover or a few yards of cloth varying from 3½ to 5 yards.

Under the formal cloth rationing scheme functioning in Calcutta since September last the cloth ration for adults has been fixed at 20 yards for the first 9 months while children upto the age of 12 have been allowed half the adult ration. Cloth ration folders have been issued to holders of Food Ration Cards as well as to permanent occupants of residential establishments and institutions (who have got no separate food ration cards) on the production of identity cards for the issue of which special arrangements

have been made. Every cloth ration folder contains 30 coupons. The value of each of the first 20 coupons is one yard of specified varieties of cloth. Only the first ten coupons would be valid during the first three months after the introduction of rationing. A somewhat peculiar digit system has been adopted in order to maintain the equilibrium between demand and supply. Those whose Food Ration Cards end in the printed number 1, 2 or 3 would be entitled to draw their cloth ration in the first month of the quarter: those whose ration cards end in the number 4, 5 or 6 would similarly be entitled in the second month of the quarter; while those whose food ration cards end in 7, 8, 9 or 0 would be entitled to draw their cloth ration in the last month. The ration can be taken either in one or more instalments at the convenience of the Card-holder. Coupons unused at the end of a quarter may be carried over to the next quarter.

As in the case of food rationing every card holder has been assigned to a particular cloth shop. Two kinds of cloth shops have been opened. (1) Class "A" shops intended to cater for about 10,000 card holders and class "B" for 5,000 card holders.

Cloth rationing in India is confined to mill-made cloth only. Handloom product and ready-made garments have been excluded from the rationing system. Cloth rationing has affected the following kinds of cloth: (1) dhuties, saries and lungies; (2) mull, voiles; (3) coating, drill (bleached, grey and dyed); (4) shirting, long cloth, twill, poplin, markin and crepe; (5) pagri cloth, mull-mull and salu; (6) prints, and (7) chaddar, sujni, bed covers, sheeting, bed ticking and blankets.

In the original scheme of cloth rationing in Calcutta, there was no provision for the supply of suitable cloth for Hindu widows and mourners. This defect has since been removed.

We now pass on to the problem of petrol and kerosene. From the chronological point of view, petrol and kerosene were placed under some controlled system of distribution long before food or cloth rationing was even thought of. India was never self-sufficient with respect to these two commodities and when the war broke out, the very high degree of military importance attached to petrol, taken in conjunction with the growing need for economising in tanker space, necessitated the institution of some control over civilian consumption of petrol. The rationing of petrol was first inaugurated in India in August 1941 under the Motor Spirit Rationing Order, 1941, which extended to the whole of British India. Under this order, no dealer in motor spirit was allowed to sell petrol to any one except on the production of coupons or in quantities in excess of what was authorised in the coupon. Coupons could be obtained from the Area Rationing Authorities, which were set up in different zones, on the fulfilment of certain conditions, such as, the payment of all taxes due in respect of a particular vehicle for which petrol permits were being sought. There were three classes of coupons, special, ordinary and supplementary. Special coupons were generally given only to high military and high administrative officers the nature of whose work required large consumption of petrol. Supplementary coupons were usually given to civilians like doctors, whose normal occupation required more than ordinary consumption of petrol.

The basic petrol ration in India which was originally six gallons per month underwent frequent changes and for some time, after the fall of Burma, it was altogether withdrawn. This no doubt caused much hardships to car-owners, many of whom disposed of their cars because of their inability to use them, (a development which was by no means unwelcome to a Government anxious to get hold of as many

private cars as possible for purposes of military transport). But this type of hardship was by no means India's monopoly. Basic petrol ration was withdrawn in Britain since June 1942, while in Germany it had been withdrawn much earlier still. Even the U. S. A., the world's greatest producer of oil, found it necessary to ration petrol during the war.

The institution of petrol rationing came as a severe blow not only to the car-going public but also to the motor transport industry in India. The transport situation in the country, which was already undergoing appreciable deterioration owing to the growing volume of military traffic in different Indian Railways, became highly strained, as many of the country bus services were forced either to cut down their services or to close down altogether. The War Transport Department of the Government of India, while enforcing drastic economies in civilian petrol consumption, tried to relieve the situation by encouraging the use of petrol substitutes like the producer gas plants and charcoal. It secured a quota of steel materials to expedite this development by assisting makers of producer gas plants all over India to obtain their requirements of steel. It was computed that by converting 600 motor vehicles to producer gas vehicles it was possible to save one million gallons of petrol per year (a bus or lorry converted to producer gas and running about 2000 miles a month, at 12 miles per gallon on petrol or 1 gallon per day when working on producer gas, can be expected to save about 140 gallons of petrol per month, or 1,680 gallons per year). The Government also encouraged the production of power alcohol out of molasses, which was also to act as a petrol substitute. Madras gave the lead in the use of producer gas. The popularity of the use of producer gas plant was, however, hindered by several factors:

(1) the increased wear and tear of the machinery due to the use of producer gas plant;
(2) the cost of conversion, and
(3) the availability of petrol in the black market (which often received illegal supplies from the military who apparently could obtain unlimited quantities of petrol and could use them lavishly when civilians were almost dying of petrol thirst).

Petrol rationing set up new standards of behaviour and new modes of peregrination among the well-to-do sections of the public for whom, in pre-war days, the motor-car was the principal means of road transport. Walking and cycling from home to office and back again became quite a fashion with some of the highest officers of the state and it was a particularly delightful spectacle to see Departmental Secretaries and even Hon'ble Members of the Viceroy's Executive Council cycling shoulder to shoulder with thousands of office assistants, both men and women, through the Queensway, and the Parliament Street, at the day's end in New Delhi.

Another unexpected sequel to petrol rationing was the temporary resurrection of, or at least a much livelier activity on the part of some of the old out-moded means of transport, which had been progressively thrown into the back-water in the Motor age of the inter-war era. Rickshaws, tongas, palanquins, not to speak of phætons and hackney carriages, —all these re-emerged from the limbo of comparative oblivion and proudly strutted across the most respectable thorough-fares of big cities with some of the most fashionable people as their temporary inmates. Quite fabulous incomes were earned by those who were now called upon to fill the vacuum created by petrol rationing in the country's road transport system.

Restriction on the consumption of Kerosene was imposed almost from the beginning of the War. India was never self-sufficient as regards her requirements of Kerosene which was imported in considerable quantities from Burma. Even before the fall of Burma, cuts were imposed to the tune of 10 to 20 per cent. of the normal supply on account of the need for economy in the use of tanker space. After the fall of Burma much more drastic cuts in supply were imposed.

Systematic rationing in Kerosene has been instituted only in a few big towns like Bombay and Calcutta (in the latter place only very recently). Controlled consumption rather than formal rationing was the key-note of the Government's policy regarding Kerosene, though in some places it has been subsequently replaced by formal rationing. In the Bombay scheme of Kerosene rationing, a distinction has been made between those who require Kerosene for both lighting and fuel purposes and those who require Kerosene for purposes of fuel only. Different ration scales have been fixed for these two classes of people, and larger quotas have naturally been allotted to those who do not enjoy the benefits of electricity in their homes.

If petrol rationing has hit hard the well-to-do section of the community, the main brunt of the impact of Kerosene rationing has been borne by the poorer section of the people both in towns and villages. Prior to the institution of Kerosene rationing, distribution of Kerosene at Calcutta took place by means of the queue system. Only those who had the time, stamina and patience necessary for prolonged waiting in apparently endless queues could hope to get, if they were lucky enough, a small quantity of Kerosene, usually 1 pint bottle at a time. In the district towns of Bengal the queue system has been gradually replaced by the permit system. The requirements of different house-holders are generally taken into consideration for the purpose of fixing

their monthly quotas. As a rule, Government officers and influential members of the public do not experience much difficulty in securing reasonable quantities of Kerosene. The pinch is felt most acutely by the small man. The humble rural folk have been the worst sufferers. They have been left completely to the mercy of local Food Committees or Union Committees or Development Committees who are usually in charge of distribution, subject to the control of the Circle Officer and the Sub-Divisional Controller of Civil Supplies. The President of such Committees, who is usually nominated by the Government, often exercises his brief authority in a highly arbitrary fashion. Moreover, all sorts of irrelevant criteria, like the amount of Union rate paid by different villagers, are often set up for fixing individual quotas.

Kerosene restriction is a veritable curse to India's teeming rural millions. The highly inadequate and erratic nature of the supply in distant villages has caused a lot of mischief and hardships to the rural masses. Night work by the Cottage worker, night studies by the student, and pleasant innocent gossip among the humble folk in long summer evenings, all these healthy activities have been made to feel the crippling blow of the perpetual partial "black-out" of the dismal era of Kerosene control.

Systematic formal rationing has also been applied to motor tyres and tubes under the Tyre Rationing Order, 1944. Under this Order all sales of motor tyres and tubes were prohibited except on the production of permits to be issued by the Area Rationing Authority. Permits were necessary even for the purpose of purchasing retreaded tyres and tubes.

The certificate method of rationing has also been employed for effecting the distribution of a wide variety of durable consumers' goods, *e.g.*, fountain pens, radios, motor cars, refrigerators, *etc.* In view of the highly inadequate

and erratic nature of the supply of such commodities, the certificate method was perhaps the only method open to the Government. The results achieved by the method, however, have been anything but satisfactory. It was extremely difficult for the ordinary man to secure a permit by pursuing ordinary methods.

An informal type of rationing has also been applied to particular goods in short supply. The shop-keeper was asked not to supply more than a limited quantity of a commodity to a particular person at a time. In the case of certain medicines like Quinine, and invalid foods like Horlicks, the buyer was asked to produce a medical certificate for proving the urgency of his demand.

We have already referred to the coal rationing scheme which regulated the coal quotas for different industries. The Government of India also instituted a coal rationing scheme for its own employees in New Delhi. A notable feature of this scheme was that the individual quota of coal was fixed differently for different salary-groups, increasingly higher quotas being allotted to the higher income strata. One fails to understand how one could suspect the existence of any direct correlationship between an individual's salary and his requirements of coal. Possibly it was thought that the fat-salaried man requires more coal because of his elaborate menu of diet which the small man apparently can not afford to take. This surmise is no doubt grimly true, but are there not also equally relevant criteria like the size of the family, the number of hearths which have to be kept burning for the preparation of the family's food, and so on?

The salary basis has also been applied by the Central and the Provincial Governments for determining the maximum value of individual purchases in the Civil Grocery shops which have been specially created for ensuring the supply of rare stationery goods to Government officers of gazetted ranks.

In the above paragraphs we have given a brief account of the chief rationing experiments which have been made by the Government of India since the out-break of the Second World War in respect of commodities other than food. The first thing that strikes one's attention is the extremely limited scope of such rationing in India (when compared with its counter-part in other advanced countries) which makes all inter-national comparison of the effects of rationing on the community's total consumption expenditure practically impossible. The purpose of war-time rationing, it may be recalled, is not only to effect an equitable distribution of commodities in short supply but also to reduce the total volume of real expenditure in order to release the maximum amount of factors of production for direct war uses. Both these objectives are increasingly fulfilled as the scope of rationing becomes more and more comprehensive. The success of price-control also depends on the scope of rationing.

In the second world war, Germany and Russia had the most comprehensive systems of rationing which practically embraced every conceivable item of individual expenditure. In Great Britain, the rationing system was much less totalitarian in character. Nevertheless, it has been found possible to calculate the reduction in the total volume of real consumption expenditure in the U. K. which was brought about by the joint operation of the British fiscal and rationing systems. For instance, it has been calculated (from the statistics of national income and expenditure compiled and published by the British Government), that the real volume of consumption in the U. K. in 1941 was 15 to 20 per cent. lower than in 1938. In India, the real volume of consumption was reduced to a far greater extent, but the method chosen was quite different. In Great Britain, economies in private consumption were mainly brought about by the method of taxation, borrowing and rationing. In India, the

same objective was realised by the highly unscientific method of inflation with its arbitrary and highly unequal incidence on different classes of persons. Price-control and rationing which played a major role in Britain's war finance were assigned a relatively minor role in India's war economy.

Indeed, it is extremely doubtful whether the Government of India ever seriously contemplated the use of the rationing technique for re-inforcing its war effort (except in the case of petrol and tyres and tubes). Both food and cloth rationing, in their highly limited forms, were resorted to only when all other measures had failed to avert food and cloth famines among the vocal sections of the population. Other partial and selective forms of rationing which are to be found in India have had very little practical significance for the common man in India. The benefits of selective rationing in India have been reaped mainly by the members of the Government's own superior staff, and possibly also by their friends and relatives. The elaborate arrangements which the Government made in the shape of Civil Grocery shops, civil tailoring shops, etc. for ensuring a reasonable supply of all sorts of scarce goods to its own officers, while practically nothing was done to cater to the similar needs of equally respectable non-officials,—point inevitably to the conclusion that the main purpose of selective rationing in India was to safeguard the interests of the bureaucracy that framed the rationing regulations rather than of the public whom it was supposed to serve.

CHAPTER VII

SOME LESSONS OF WAR-TIME CONTROLS.

Price-control and Rationing are both essentially war-time phenomena and, although they may drag on for some time yet, even after the cessation of the war, during the critical phase of the early post-war period, they are ultimately bound to disappear with the restoration of normal conditions. At least, this is implicit in a free economy. Since India is uptil now wedded to free institutions, we may naturally expect a gradual relaxation of economic controls inherited from the war (though we may find bureaucrats, who are actually engaged in administering various types of controls, on the side of those favouring an undue prolongation of the control regime). As a matter of fact, some relaxations have already been either made or announced. For example, the basic petrol ration has already been increased, and it has been announced that controls over salt will be removed in the near future. On the other hand, however, food controls have been further tightened up of late on account of the over-all food shortage both in India and the outside world. But even the present food crisis is not likely to last long and, if we take a long view of things, the future agricultural problem may once more become the problem of preventing gluts rather than the problem of over-coming shortages.

The question, therefore, naturally arises: is the story of India's war-time experiments with price-control and rationing, which has just been described, a mere episode or a grim war-time experience like the wailing of the siren, of which a notice may be taken only by the future economic historian

for the satisfaction of mere historical curiosity, or is there any permanent lesson to be learnt both by the statesman and the economist out of phenomena which by their very nature are bound to be transitory? There can be very little doubt about the nature of the answer which should be given to the above questions.

To the ordinary man, particularly to the man of the village, who has not received much tangible benefits out of war-time controls, and certainly to the businessman, for whom economic controls can never be, to quote Mr. Churchill's words "delectable dishes" to be relished and remembered, the eventual passing away of the control regime may, no doubt, have the same exhilarating effect as the passing away of a frightful night-mare, and there may be no tendency on the part of either of them to "cast a longing, lingering look behind." But for the economist a veritable laboratory has been provided in the voluminous records of our war-time experiments with economic controls in general and with price controls in particular, records which are not any the less useful as materials for valuable research, because they happen to be largely chronicles of failures. It is quite beyond the province of our present study to make any detailed analysis and to sift out the lessons which can be gleaned from the actual experience of particular types of commodity controls. We, shall, therefore, content ourselves by indicating some broad lessons which our first big experiment with economic controls inculcates.

The very first thing that we have to learn from the actual working of economic controls is that we must carefully analyse the main causes of our failure with a view to the elimination of such factors in any future re-imposition of similar controls which a future emergency of a similar character may render necessary. We have already referred to some of the contributory factors responsible for the com-

parative failure of price-control and rationing in India, *viz.*:—

(1) initial unpreparedness,
(2) complacency on the part of the bureaucracy,
(3) lack of a proper administrative staff, both in quality and quantity,
(4) lack of healthy co-operation between the Government and the public on the one hand, and between the Government and the business community on the other,
(5) lack of proper support from the Government's fiscal policy, and
(6) lack of proper co-operation and liaison work between different Departments of the Government, and between different administrative units.

But the supreme lesson that we have to remember is that our existing economic structure is too weak to bear the strain of a prolonged state of emergency. Even in the so-called normal periods of prosperity, the great masses of the Indian people lived on a very narrow margin and they possessed very little reserve power for absorbing the shock of any unexpected blow from outside. It is no wonder that the unprecedented strain of a total war, the incidence of which was thrown quite disproportionately on the shoulders of the dumb millions due to the pursuit of a policy of inflation, has proved to be too much for many of them. People, with half-decrepit bodies on account of chronic semi-starvation in normal peace-times, readily succumbed, when the war imposed fresh drastic cuts in their consumption. The great objective lesson for our statesmen to cherish, therefore, is that we must build up the reserve strength of the masses so that they might face a future emergency quite manfully.

Secondly, the short-comings and failures of our experiments with price-control and rationing have also vividly

brought to the surface the utter inadequacy of our present agricultural and industrial systems. India must become more self-supporting in the supply of her essential requirements than she had been in the past. Our agriculture, industries, transport system and the administrative machinery require to be thoroughly overhauled before we can afford to be plunged into another conflagration. We must either modernise our ways of life or perish. India must produce more foods, both primary food and protective food, if starvation and mal-nutrition are to become altogether things of the past. There is a crying need for more milk, more butter, more eggs, fish and meat, and more vegetables. We must also learn how to preserve our perishable foods. Thus the first priority in any scheme of post-war economic reconstruction should be given to agriculture and other allied industries including the food processing industries. Similarly, the lesson of the great cloth famine is that there should be a much larger number of cotton textile mills in India for the production of more cloth and of more yarn. The transport system of the country also requires thorough overhauling. We must make larger use of our navigable rivers than we have done hitherto. Nationalisation of all systems of transport—roads, railways, rivers as well as coastal transport—is perhaps the only solution of our transport problem. Again the statistcal equipment of the administration also requires to be greatly strengthened, both at the centre and in the provinces. These are the preliminaries to be satisfied before we can establish a truly satisfactory form of price control and rationing in India in any future emergency.

But the lessons of our war-time experiments are not merely meant for offering guidance in the proper handling of possible future emergencies. They can be of immense practical value in solving our peace-time economic problems as well. For instance, the new machinery of procurement

and distribution which has been so laboriously built up in the course of the general crusade against high prices of food-grains may well be utilised in normal times for stabilising the prices of agricultural products in general. In the past, the poverty of the Indian ryot was largely due to his inability to sell his produce at a good price. Our war-time food control has succeeded in eliminating most of the big middlemen who formerly thrived at the ryot's expense. Now that, under the sheer pressure of abnormal circumstances, the state in India has learnt the art and technique of buying, transporting, storing and distributing agricultural products in huge quantities, it should not be difficult for the state either to prevent the re-appearance of the exploiting middlemen or to guarantee a good price for all agricultural products. The new storage arrangements, the recently acquired marketing experience and the rationing technique may be simultaneously employed for preventing any undue recession in agricultural prices following an accidental over-production in any particular year. For example, surplus goods may be kept in storage or processed and preserved, or distributed over wide areas or just disposed of at differential prices (*i.e.*, a very low price may be charged for very poor consumers, while keeping up prices for the majority of buyers) as under the United States food stamp plan.

There is another special reason why the lessons of our war-time experiments should not be lost on our economists and statesmen. India to-day is on the threshold of great developments in the economic, social and political spheres. It is universally agreed that such developments must be properly planned. But planning implies controls, although the nature of economic controls appropriate to a peace-time planning for prosperity is quite different from that of controls implicit in war-time planning for scarcities. Thus the regime of controls may be given a new lease of life, though

the character of controls will have to be suitably modified. The results of our war-time experiments will naturally yield very valuable data for the fashioning of the new "controls" that will be necessary in the coming era of economic planning.

Lastly, it may be also mentioned that the technique of rationing may also play a very vital role in the supreme task of nation-building in India. One of the greatest and most urgent problems in India is the problem of improving the general standard of health and physical fitness. Lack of adequate purchasing power, ignorance, the unscientific character of customary diets,—these are mainly responsible for the chronic mal-nutrition of our people. A well-articulated rationing system may easily help much to overcome all these barriers of poverty and ignorance and give the people a healthy diet which is the principal desideratum. The poorer section of the community may be given subsidised ration at the expense of the richer elements. Thus a suitably modified form of rationing may be a powerful engine in the hands of the State both for effecting a socialistic re-distribution of wealth and for improving the general standard of public health in India. In this connection, it may not be out of place to note that economic stabilisation at a high level of employment depends *inter alia* upon a high level of mass consumption. In India, the per capita consumption of the masses is extremely low on account of extreme mass poverty. It is this low consumption standard of India's teeming millions which will ultimately prove to be an insuperable stumbling block on the road to prosperity both for India and the whole world. One possible solution lies in the pursuit of a dual consumption policy whereby free individual consumption will be supplemented by state-aided private consumption. Some variant of the rationing technique may be adopted for bringing such subsidised consumption within the range of practical politics.

EPILOGUE

A NOTE ON 'DECONTROL'

We have observed that war-time controls must disappear gradually after the passing away of the war emergency which brought them into being. The degree and the timing of such de-control measures, however, must depend on current expectations of the speed of return to normal conditions after the cessation of hostilities. Generally speaking, controls should be retained, in a suitably modified form, over those sectors of the economy which may suffer for some time from war-created scarcities, and removed from other sectors. If the inflation potential is present, there is an additional justification for retaining or even intensifying controls over essential commodities in the interest of a smooth transition from war to peace economy.

Until recently, the Government of India's economic policy was in conformity with the above general principle. Omnibus control orders like the Hoarding and Profiteering (Prevention) ordinance 1943 and the Consumer Goods (Control of Distribution) order 1943 were relaxed and were finally allowed to lapse on Sep. 30, 1946. Considerable relaxations were also made in the enforcement of exchange and import restrictions and of the Control of Capital issues order. At the same time, however, the Essential Supplies (Temporary Powers) Act, 1946 was put on the statute book to enable the Government to retain, after the lapsing of D. I. Rules, effective control over the production and consumption of certain essential and basic commodities like food, cloth, sugar, iron and steel, coal, oils and oilseeds, petroleum, spare parts of vehicles and mica. Cement, paper, and house-rent also continued to be 'controlled'.

Thus in the first phase of the post-war period, the de-control experiment, though applied to a very wide sector of our economy, was not allowed to interfere with the hard core of our price-control system. Indeed, in this early phase controls were intensified in some vital respects. An all-India control was imposed for the first time over oilseeds, while ceiling prices were laid down for copra and coconut oil. As the food situation once more took a grave turn since 1945-46, the system of food rationing was extended to wider and wider areas. The number of rationed population which stood at 26 million in 1944 rose to 52 million in 1945, to 100 million in 1946 and to 171 million in 1947 (on the eve of the Partition). The ration-scale had also to be reduced in 1946 from 1 lb. of food-grains to 12 oz. per adult and general austerity standards were imposed in public banquets and catering establishments.

But this mixed policy of control and de-control did not succeed in arresting the inflationary spiral. The Economic Adviser's index number of wholesale prices averaged 275·4 in '46-'47 as against 244·9 in '45-'46. In October '47, the index number of wholesale prices stood at 298·2. The Bombay cost of living index averaged higher at 255 in '46-'47 as compared with 231 and 228 in the two previous years. In Oct. '47 it rose to 285. The food index issued by the Economic Advisor, notwithstanding the heavy subsidies granted by the Government in regard to imported food-grains, rose steeply from 244·6 in April 1946 to 271·8 in March 1947, as against a rise of 11·1 and 2·8 points in the two previous years. At the end of Nov. '47 it stood at 281·4 (August 1939 = 100). The index for industrial raw materials showed the maximum rise from 283·5 in March '46 to 362·9 in March 1947, and to 383·4 at the end of Nov. '47.

The great deterioration in the price situation which has taken place in India since the end of the War is at once un-

expected and disquieting. It was hoped that the reduction in the volume of demand for Defence requirements, the availability of larger industrial capacity to the civilian sector of the economy and the augmentation of supplies through imports, taken in conjunction with the cessation of huge war expenditure, would tend to lower the level of prices. But this expectation was not fulfilled. Rising price-levels abroad, notably in the U.S.A. and, to a lesser extent, in the U.K., declining production in India, and a sudden spurt in demand, both domestic and foreign, for some of our products, —these are the main causes of the continued inflationary trend in the post-war period.

The Government tried to meet the situation in various ways. First, an incentive tax policy was announced in the budget for '46-'47. The E. P. T. was abolished, while high depreciation and obsolescence allowances were granted for the purpose of assessment of income-tax. The tax on undistributed profits was reduced, while exemption from income-tax was granted in respect to current expenditure on industrial research. The cheap money policy was also followed with the same object in view. At the same time, the Government felt that direct price controls over essential commodities should not only be continued but should be integrated and synthesised. With this end in view, the Commodities Prices Board was formed in February 1946. The main function of the Board would be to keep under constant review the movements of commodity prices and to advise Government on price-levels in respect of controlled commodities and on the question whether other commodities should be brought under control. In determining the appropriate price-levels, the Board was to take into account a variety of factors, such as the cost of production, the current prices in relation to pre-war price-levels and their bearing on other commodities. The Board was also to undertake periodical

reviews to explore the possibilities of a reduction in the cost of living. The importance of the role assigned to the Prices Board in the formulation of an integrated price policy for India may be judged from the following extract from the Finance Department's Resolution on the formation of the Board: "It is essential to maintain a reasonable relationship between the prices of cash crops and the prices of foodgrains on the one hand, and between agricultural prices and industrial prices on the other, if producers and consumers alike are not to be put under a constant sense of grievance, and agrarian and industrial unrest is to be prevented."

The first list of commodities referred for examination to the Board included food-grains, cotton and cloth, to be followed later by other articles, such as iron and steel and cement. Unfortunately, however, the Board was abolished after it had submitted only two confidential reports to the Government and its functions were assigned in October '47 to the new Tariff Board. Thus the idea of an integrated price policy was thrown over-board. Perhaps this was inevitable on account of rising wage-levels everywhere under the spur of actual or threatened strikes. The Central Pay Commission recommended fairly liberal salary scales and allowances for the lower-paid employees and these, along with similar increases in semi-official and private establishments, at once helped to augment the volume of purchasing power competing for a limited supply of goods, and to raise the costs of production. Both these consequences of rising wage-levels were bound to have inflationary effects. The vicious circle was completed by persistent downward trends in production brought about by a variety of factors such as industrial strikes, lack of capital equipment, transport bottle-neck, civil disorder etc. The nature of the production crisis through which Indian industries are passing now may be gauged from the following figures: The production of pig iron declined in 1946-7 to 1,364,000

tons from the war-time peak of 1,686,000 tons in '43-'44, while the production of steel declined to 875,000 tons in '47 from 1,180,000 tons in 1945. The production of cotton textiles declined from 4800 mill. yds. in '46 to 3800. mill. yds. in '47. The production of cement declined from 160,000 tons in '45 to 112,000 tons in '47. The production of sugar declined in '47 to 921,177 tons from its peak of 12·2 lakh tons in '43-44. The same story of dwindling production has been repeated in the agricultural sphere as well. The total output of cereals (including rice, wheat, jowar and bajra) declined from 518 lakh tons in '44-45 to 464 lakh tons in '45-'46 and it stood at 468 lakh tons in '46-'47.

While the over-all economic situation was becoming more and more gloomy, it became increasingly difficult for the Government to maintain its highly expanded food rationing system. Internal procurement proved to be increasingly difficult and, although the rationed population increased six times between 1944 and '47, local procurement remained practically stationary. Supplies at the Government's disposal from local procurement stood at 4·93 mill. tons in '44 and at 4·17 mill. tons in the first 9 months of '47. The difficulty of import was even greater. In the first place, India did not succeed in getting more than 50% of her import requirements from the International Emergency Food Council which determines the import-quota of different deficit countries. Under conditions of global food shortage, no single country can perhaps hope to secure all its requirements from abroad. Secondly, the price that India had to pay for its imports became more and more exorbitant. The price of Burma rice, for instance, has increased from Rs. 10 a maund in '46 to Rs. 21 per maund in '48. Although the volume of import did not go much beyond 2 mill. tons, the Government had to pay, on account of high prices charged, something like Rs. 100 crores a year on food imports. This policy was costly in two respects: first, in so

far as purchases had to be made in 'hard' currency areas, there was a depletion of India's extremely limited reserves of valuable foreign exchange. Secondly, in order to maintain the prevalent internal price-levels of food-grains, the Government had to pay heavy subsidies for meeting the difference between the prices of imported and locally produced food-grains. In 1946-47 the total amount of subsidies paid amounted to Rs. 20·59 crores.

Thus, on the one hand, the Indian food rationing system was coming perilously close to the breaking point on account of lack of supplies and on the other hand, it was proving to be increasingly costly. There was growing dis-satisfaction everywhere. The rationed consumer was dis-satisfied because the ration-scale had been so drastically reduced (at present it is 8 oz. in Calcutta) that it was far short of the minimum requirements of every healthy adult. The consumer was also dis-satisfied because he did not get the kind or quality of grains he wanted. For example, wheat of normal pre-war quality has been totally unavailable in Calcutta ration shops for quite a long time. The producer was dis-satisfied because he thought he was not getting the proper price for his product. That explains why procurement has become so difficult. On the other hand, black markets have been flourishing on a large scale. The Rationing administration has also revealed much inefficiency and corruption. At Calcutta alone, it was calculated that there were more than 1 million ghost ration cards.

There was a general feeling, to which Mahatma Gandhi lent his powerful voice, that there is something wrong somewhere in the prevalent system of food administration. Gandhiji held that the centralisation of food-stuffs was ruinous and that decentralization alone would deal a deathblow to black marketing and save time and money in transport to and fro. He emphatically declared that food-control

amounted to spoon-feeding and was thus destroying the virtues of self-help and self-reliance. If there was a small deficit, he made the characteristic suggestion that this deficit should be covered by self-imposed fast on the part of every individual once a fort-night. He believed that there was enough food and cloth in the country but that they were not reaching the people. In other words, Gandhiji felt that the continuance of controls was the one big factor which was responsible for preventing the much-needed return to normalcy in Indian life. Controls, he observed with the supreme self-confidence of a mystic seer, were breeding monopolies and thereby benefiting the rich and cursing the poor. Gandhiji's advocacy of de-control was, as it might be expected, reflected in the recommendations of the new Food-grains Policy Committee which had been appointed by the Government for making a detailed examination of the Government's food policy. The Food Committee recommended a policy of progressive de-control,—a policy which was subsequently endorsed by the Government.

On Dec. 10, 1947 the Government of India declared its revised food policy of gradual de-control. The main points in this new statement of policy may be summed up as follows: (1) gradual curtailment of Government commitments by with-drawing rationing in the reverse order to the original process of extension; (2) reduction of dependence on imports and greater emphasis on internal procurement; (3) greater freedom to provinces with regard to prices to be paid for procurement consistent with the policy of keeping them within limits for the consumer; and (4) lastly, to watch developments and to keep in readiness a reserve of grains to meet emergencies.

Under the revised food policy, sugar was de-controlled completely and at once. With regard to food-grains proper, the new policy did not usher in de-control automatically.

The whole matter was left to the discretion of the units. The Basic Plan was to continue for some time yet, but deficit units were asked not to make demands on the centre in excess of their individual ceiling import quotas. Imports were also to continue during 1948, though it is not known whether any ceiling for such imports has been fixed. The Government is to build out of imports a reserve of 5 to 10 lakh tons. To reduce dependence on imports, the subsidy required for levelling down the price of food-grains imported from abroad, hitherto borne entirely by the Central Government, will be shared during 1948 by the Central Government and the Provincial Governments concerned in the ratio of 2:1. In order to encourage internal procurement and production and maximum assistance by surplus provinces to deficit provinces, the Centre will pay to every Provincial Government a Food Bonus at the rate of 8 annas per md. of food-grains procured and another 8 annas per md. of food-grains exported, subject to the condition that the Bonus should be utilised either in meeting any loss on the distribution of food-grains procured in India or in supplying to the producer manures, fertilisers etc at concessional rates. Supplies exported under the Basic Plan from surplus to deficit areas will continue to be charged on a no-profit no-loss basis as hitherto. In so far as procurement, rationing and controlled distribution continue, controls will continue to be exercised in respect of rice (including paddy), wheat (including atta and flour), jowar and bajra and any other millet at present procured and distributed in rationed areas, and maize. Inter-provincial barriers will continue to be maintained for the present.

Such, then, is a brief outline of the Government's revised food policy. It is a policy not so much of de-control as of decentralization, though a measure of de-control is its obvious intention. The implementation of the policy of de-control

has, however, been left to the Provinces. This is as it should be, since the nature and intensity of controls differ widely from area to area and there are special features in the food problems of different areas. Regional de-control must take into account these special problems. The general pattern of regional de-control since given effect to may be indicated as follows: First, steps have been taken to reduce rationing commitments to a very large extent. Rural rationing has been abandoned in most places and commitments under urban rationing have been reduced. Bombay, a deficit Province, has taken the lead in de-rationing, as she took the lead in the institution of rationing. In West Bengal, Asansol and Kharagpur have been de-rationed and modified rationing has been discontinued in all except four districts. Secondly, monopoly procurement and compulsory levy schemes have been considerably relaxed and liberalised. Thirdly, inter-district free movement of food-grains has been restored except in regard to rationed areas or zones marked out for procurement operations. Fourthly, the statutory prices have either been raised substantially or removed altogether.

The first full experiment with de-control has been made in regard to sugar. The results are not altogether disappointing. Though the price of sugar is higher than the old controlled price, it is much below the old black market price. The increase in the price of sugar that has taken place is at least partly accounted for by the fact that the price of sugar-cane has been substantially raised while labour cost in sugar factories has been practically doubled. It is the failure to freeze factor prices rather than the fact of de-control which is mainly responsible for the present rise in the price of sugar. The advocate of de-control can, however, quite justifiably claim that there has been nearly 100% decline in the price of sugar compared to the old black

market price, that the paralysing effect of an unrealistic controlled price on the sugar industry has been removed and that there is no more any incentive to the grower to reduce the acreage under sugar-cane or to sell sugar-cane to the gur manufacturer. The consumer has no doubt to pay a higher price, but he is also a gainer in two respects: He has no longer to buy sugar from the black market at prices four to six times higher than the old 'control' price: on account of the very low sugar ration, most of the sugar consumers had to supplement their rations from the black market. Secondly, the consumer can now consume as much sugar as he likes without any fear or scruple.

The Food Minister hoped that the results of food de-control would not be substantially different from the results of de-control of oil and oilseeds. De-control meant in the case of mustard oil a levelling up of prices in surplus areas and a levelling down of prices in deficit areas and a general rise in price, not up to the peak of the black market price but somewhere mid-way between the 'Controlled' and 'Commercial' prices. This expectation has been generally fulfilled in the case of sugar. At the moment of writing, we do not possess sufficient data for drawing any conclusion on the results of the degree of de-control which has since been effected in respect to food-grains. But it is well worth pondering over the fact that while the black market price in Calcutta at present is between Rs. 35 and Rs. 40 per maund, just a few miles away from the Calcutta rationing area rice is selling at Rs. 17/8/- per maund and this despite the fact that West Bengal's expected deficit in '48 amounts to over 1 million tons.

The decision to de-control food was bound to have far-reaching effects on the crumbling edifice of the remaining 'controls'. The impact was first felt in cotton textiles which were practically de-controlled on Jan. 20, 1948. We have already observed that the production of cotton textiles

had declined much since the cessation of the war. The cloth rationing system was also working very unsatisfactorily, while huge black markets were flourishing almost openly everywhere. Throughout 1947 schemes after schemes were formulated by the Government for augmenting the production of cloth. In February 1947, the Government of India appointed an *Ad Hoc* departmental committee to investigate the causes of the fall in cloth production and the price structure which had apparently made it remunerative for the mills to shift production from coarse and medium to finer varieties. This committee prepared a scheme for standardisation of production with two main features:

(*i*) The lowering of the average count produced by each mill, and

(*ii*) the reduction of the types and varieties so as to increase production by making the maximum use of the available supplies of yarn. The objective was to produce more and better cloth at the expense of finer varieties worn only by a few classes. The scheme was expected to increase production by about 400 million yds. of mill cloth and 400 million yds. of hand-loom cloth. The Committee also recommended a revision of the price structure which involved an increase in the price of coarse cloth and yarn.

The Commodities Prices Board, to which these recommendations of the Ad Hoc Committee were referred, while welcoming the standardisation scheme, did not favour the proposal for price increases. The Board suggested that, if necessary, price adjustments should be secured by an equalisation fund whereby the prices of fine varieties would be utilised to subsidise coarse and medium varieties.

Early in Nov. 47, the Government of India announced its textile policy which was to be given effect to from Dec.1, '47. The main features of this new policy may be summed up as follows;

I. The standardisation scheme of the Ad Hoc Committee is to be implemented immediately.

II. An equalisation Fund is to be created to which will be credited: (a) the difference between existing ex-mill prices of fine and super-fine cloth and the fair prices fixed by the *Ad Hoc* Committee; (b) half of the amount now being paid as quota-holders' commission which is to be reduced from 3 to 1½%; (c) a surcharge on a sliding scale on free yarn sold by mills.

III. Regional and unit production committees consisting of representatives of labour and industry are to be set up to ensure that there is no leakage at the mill end and that labour fully co-operates in the production programme.

IV. Labour to be asked to work for nine hours as against existing eight hours, as an emergency measure and over-time will be adequately remunerated. Welfare measures for labour in the textile industry are to be financed out of the equalisation fund.

V. Control to continue until production is increased. "With supplies well below demand, immediate de-control would only lead to a repetition of the shortages and high prices which occurred in 1943." This would cause great hardships and start an inflationary spiral dangerous to the country's economy.

The new textile policy formulated after months of consultation and expert investigation did not meet the insistent demand of Industrialists for higher 'control' prices. The reference of the question of prices to the Tariff Board was interpreted by manufacturing interests as an indefinite shelving off of a decision on the most vital issue facing the Industry. The agitation for de-control continued and it gathered fresh momentum when the policy of gradual de-control over food-grains was announced. Two other new factors came into play. There was a sharp and sudden

increase in raw cotton prices in the world markets with their inevitable repercussions on India. Secondly, a fresh difficulty arose in the matter of securing supplies of long staple cotton from Pakistan. All these developments made some increase in the prices of yarn and cloth inevitable. As the agitation for de-control was continuing in full swing, the Government of India surrendered to public clamour and declared on January 20, 1948 that the existing control over textiles was 'considerably relaxed'. The main features of this new textile policy may be summarised as follows: (1) the question of price-fixation was left to the Provinces; (2) the system of quota-holders was abolished; the Government declared that its intention was that normal trade channels should be restored to the largest possible extent, though Provincial and State Governments were free to set up their own procurement agencies; (3) movement of textiles within a Province should be free, while inter-provincial movement could take place with the Textile Commissioner's sanction which would be given except where transport was uneconomical or unreasonable; (4) the existing system of distribution of yarn would continue though mills were allowed to distribute yarn not lifted within a reasonable period of allocation; (5) statutory floors and ceilings of cotton prices were to be abolished with immediate effect; (6) control over prices and distribution of imported cloth and yarn would be discontinued immediately; and (7) the export of raw cotton was to be banned except in regard to certain varieties and the export duty on cotton was to be doubled.

The new announcement of the Government's textile policy completely reverses the policy announced in November, 1947 and virtually ends the system of textile control evolved in 1943. West Bengal and Bihar have already de-controlled cotton textiles and other Provinces may be

expected to follow suit. The Government hopes that the standardisation scheme will be voluntarily executed by the Industry and that production will be directed towards such types and varieties as are in great demand. The Government also hopes that production Committees on the lines suggested by the Ad Hoc Committee will be set up in all mills to facilitate the discussion of all production problems between management and labour without which the goal of maximum production cannot be reached. The Industry has also given an assurance to the Government that prices would be fixed at reasonable levels and that such prices would be stamped on the cloth. The equalisation fund has been closed and the difference between new and old prices on stocks held, at the time of de-control, by mills, quota-holders and the Bengal Textile Association is to be appropriated by the Government. Mills in the surplus area, however, have been required to reserve 25% of their production at the disposal of the Textile Commissioner for a period of one month for the purpose of relieving local shortage. They are also expected to set up "fair" price shops in deficit areas. Existing control over the export of cloth and over the distribution of machinery, mill stores, dyes, chemicals, etc. are to continue.

Such then in brief are the main features of the textile de-control policy announced by the Government. With sugar and cloth wholly de-controlled and food-grains partly de-controlled, it is doubtful whether the remaining controls on iron and steel, cement, paper and petroleum can remain long in saddle. The citadel has been pierced and the final liquidation of all war-time controls seems to be inevitable in the not too distant future. Though nobody has been satisfied with the manner in which controls have worked in India, whether during or after the war, there is a nation-wide difference of opinion on the wisdom of the de-control

policy now unfolding itself. In strict theory, de-control is justified only when war-created shortages disappear. But India has chosen instead to launch this de-control experiment in a period of acute and increasing shortages. The passing away of the war emergency has been adduced to be one of the major reasons for the removal of war-time controls. If this line of reasoning is valid, it might be asked why is it that the United Kingdom is engaged in reinforcing its controls and the U. S. A. is thinking of reimposing controls after its recent brief experiment with decontrol? If countries like the U. K. and the U. S. A., which managed to come out successfully from the ordeal of the last world war with the value of their respective national currencies preserved more or less intact, still think it necessary to maintain direct price controls for preventing inflation, is it not an act of abdication on the part of our National Government to remove controls in the face of large shortages in supply and in the wake of an unbridled orgy of war-time and post-war inflation?

Analogies are indeed mis-leading, since conditions vary widely in different countries. But there can be no doubt whatsoever that the policy of gradual de-control over food-grains has not been happily timed. Food is being de-controlled in the wake of two successive deficit years and of the Partition of India which has aggravated and not lessened our now almost chronic food deficit. Nor is it likely that de-control will immediately result in much increased food production in view of the long-term character of the handicaps which at present beset our agriculture. At its best, de-control would lead to a dis-hoarding of food-grains at the producer's end, and at its worst it may lead to renewed speculative hoarding by producers and panicky hoarding by consumers and there might be a return of the ghastly tragedy of 1943. Though de-control is of the nature of a gamble, it is fair

to note certain redeeming features. In the first place, the rationing system has not been abolished in the larger towns and cities which contain the largest aggregations of non-producing population. Secondly, the possibility of imports from overseas is now present and it is bound to have good psychological effect on the people's mind. Thirdly, the control machinery has not been scrapped. If necessary, controls may be re-established without any loss of time. Fourthly, the Basic Plan has been retained as a substitute for free inter-provincial distribution of food-grains which, though the better alternative, is apparently not feasible under existing conditions of transport difficulty. Fifthly, India will not only continue to import food-grains in 1948 but also build up a food-grains reserve which will be available for relieving acute local shortages wherever they might develop. The Food Bonus system under which domestic production will be encouraged is also, from the long-term point of view, much more beneficial than the old ruinous policy of subsidised sale of costly imported food-grains.

The de-control policy is confessedly the outcome of a serious deterioration in our existing system of food administration. The new policy was launched at a time when various abuses had crept into the system and a complete break-down became imminent. This argument for de-control fills one's mind with gloomy fore-bodings. It looks like a confession of despair. If procurement operations were not proceeding smoothly on account of relatively low ceiling prices, that difficulty could have been solved by an upward revision of food prices. If, on the other hand, the main difficulty was administrative inefficiency and laxity, it augurs ill for India's future that no remedial measures could be devised for improving the tone of our administration, even though a National Government is at the helm of

affairs. Are we to suppose that as individuals we are so corrupt and selfish that we must always allow events to lead us hither and thither because we are collectively incapable of mastering them? If, for instance, it is true that India is suffering from an over-all shortage of food-grains, justice demands that the incidence of such shortage should be distributed equally among all sections of the population. In other words, universal rationing rather than progressive de-rationing was the need of the hour. Yet this obvious course has not been adopted apparently on administrative grounds. If, on the other hand, the deficit is nil or negligible, de-control should have been accompanied by the restoration of free inter-provincial movement of food-grains. For then alone free market forces might take the place of the existing system of state allocation. The policy of gradual de-control is likely to give us the worst of both the worlds: the state abdicates but in such a manner that the vacuum that is thereby created cannot be satisfactorily filled. The main brunt of food de-control will be on the heavily deficit areas, notably on South India, while its principal benefits will be reaped in surplus or evenly balanced zones. If excessive centralization was ruinous because it involved too much unnecessary transporting of foodgrains, decentralization, accompanied by prohibition of free inter-provincial movement, may also prove to be disastrous for chronic deficit Provinces which cannot overnight become fully or nearly self-sufficient despite the pressure of ceiling import quotas.

It may be argued that whatever the theoretical justification for retaining controls, the highly unsatisfactory manner in which controls have actually worked in India fully justifies the present de-control policy. This argument has much force. Economic control is a problem not of *pure* but of *applied* economics. It must be judged by prag-

matic tests. Two years of post-war controls have produced no tangible good results though negatively they might have averted a possible major disaster. The production crisis has deepened and has shown no signs of easing down. This is true of food, cloth, steel, sugar, cement, paper and of practically every other essential 'controlled' commodity. Shortages demand control, but if controls aggravate such shortages, the remedy apparently would be to tighten such controls. Control, to be efficacious, requires more control, and more control requires still more control. We are thus landed in a spiral of control and we may ultimately reach a position in which we become virtually imprisoned in a cob-web of controls, with production and consumption dwindling all round. Looked at from this perspective, the de-control policy is a commendably bold attempt on the part of our Government to extricate the economic system from the paralysing grip of an ever-widening vicious circle of fruitless controls. People disgusted with the rank corruption and colossal inefficiency of the control regime will certainly sigh a breath of relief because the Government is no longer inviting them to follow it further and further into a dark and narrowing tunnel at the end of which there may be no day-light! If controls do not work well in India because people are determined to sabotage them or because the administrative staff is corrupt and inefficient, or because a flexible and elastic form of controls suited to our conditions cannot be devised, the path of wisdom lies in abrogating them. No Government can afford to be blindly logical in the pursuit of policies affecting the lives of millions.

But if de-control was decided upon with a view to avoiding further entanglements in a vicious circle of throttling controls, there is a grave risk of starting another still more vicious spiral of inflation which may well wreck all

reasonable hopes of a return to post-war normalcy. Thus we were between the Devil and the Deep Sea when the experiment began. As a matter of fact, prices have gone up and not gone down after the removal of controls,—judged, of course, by the level of the 'control' prices. It may, however, be argued that the true base for purposes of comparison is the old black market price and that, since the free market price now is well below the old black market price, the de-control policy has been justified by its results. This way of looking at things is no doubt very interesting and in a sense instructive too. But the trouble is that we have not got any authentic record of black market prices in different places and for different dates. Moreover, all calculations of the cost of living index numbers as well as of changes in wholesale price-levels have taken into account the so-called 'controlled' prices, and it is these official index numbers which have generally supplied vital data for wage-fixation and wage-agreements. If, therefore, the effect of de-control is to send prices upwards from where they stood in the era of controls, a general clamour for upward revision of wage-levels may well prove to be irresistible. And since the wage-level is the pivot around which the whole price structure oscillates and revolves, de-control may seriously aggravate the inflationary distortion of our ramshackle economic system which is still reeling under the deep wounds inflicted on it during the last world war.

It may, however, be argued in defence of de-control that the battle against inflation was already lost and that the new policy is not so much an act of surrender to the inflation potential in the country as a voluntary, though belated, acceptance of the inevitable. Two arguments may be advanced: first, we have already allowed, by reason of our war and post-war wage policy, the costs to rise to a point at which production cannot go forward with the necessary pro-

fit-margin unless a new plateau of prices is reached. This proposition is not generally true, since wage increases have always followed and not preceded price-increases and in most cases the ratio of wage increase has fallen short of the ratio of price increase. Compensatory wage increase, and that to an inadequate extent and after some time-lag, constitutes no justification for additional price increase. It is, however possible that in particular industries costs may have gone much too high, though we have not got any statistics to prove that producers in any industry had been actually incurring losses. Perhaps the wage-profits ratio under the regime of controls was not considered to be wholly satisfactory by producers, particularly after their recent delightful experience of abnormal war-time profits. But then will de-control really confer any lasting benefit on them? Who knows who will be the ultimate gainer, once prices and wages begin anew to chase each other up, both labour and capital each trying its utmost to get the better of its rival? Strikes and hold-ups are not likely to become any less frequent once the moorings on controlled prices are removed and the sails of our 'frail bark' are 'to the tempest given.'

The second argument is that war-time financing has left us the heritage of a supply of money and other liquid assets so vast that nothing can possibly stop the rising sea of inflation until the price-level has settled at a new high level commensurate with the enlarged money volume. But the money volume has little significance by itself as an absolute figure. It must be related to other magnitudes such as the Gross National Product and the aggregate national income. Account has also got to be taken of the velocity of circulation of money and bank deposits. For lack of statistical information regarding the volume of our money income and the total Gross National Product, it is not possible for us

to draw any definite conclusion regarding the appropriate level of prices at the present moment. There can, however, hardly be any doubt that our declining production in the face of a vastly expanded supply of money had made the Price-Controller's job an extremely difficult and unenviable one. The reed that does not break must bend. On the other hand, however, it may be observed that if controls could be rigorously enforced and our potentialities for greater production fully exploited, the mere fact of a vast expansion in the supply of money does not by itself warrant the translation of our price structure to a still higher plateau.

The de-control policy of the Government is avowedly experimental in character. It has been decided upon less on grounds of its own intrinsic merits than on account of the fact that previous controls have not only failed to solve the deepening production and inflation crisis but also came perilously near the brink. Fundamentally, de-control was the inevitable outcome of the failure to freeze costs of living and wage-levels. On the positive side, the de-control policy is based on the hope that the untrammelled operation of free market forces will succeed in achieving what could not be done by a policy of state regimentation of economic forces. Whether this hope will be fulfilled at all or in a large measure, it is difficult on our part to predict. The actual turn of events following the launching of the de-control experiment does not so far justify the worst fears of those who held that the abrogation of controls at the present juncture would, by removing the last protecting dike against existing inflationary pressures, at once plunge the whole economic system into the vortex of a renewed all-round inflation. Some time must elapse before we can conclude whether the sectional price increases that have already taken place are a prelude to a general all-round price increase or are the inevitable corollary to necessary structural adjust-

ments, demanded by changed underlying conditions,—changes which could not so far be made on account of rigid price-controls. If de-control proves to be a success, India will have good reasons to be grateful to a Government which will have thereby proved its capacity to turn a defeat into a great victory. For surely it is better to live even by following heterodox methods than to die through a rigid and blind adherence to logic or orthodoxy. But if de-control proves to be a costly failure, the Government will be open to the criticism that it gambled unnecessarily with India's economic destiny, and in any case, once the Rubicon has been crossed over, no retreat to the *status quo ante* seems to be feasible.